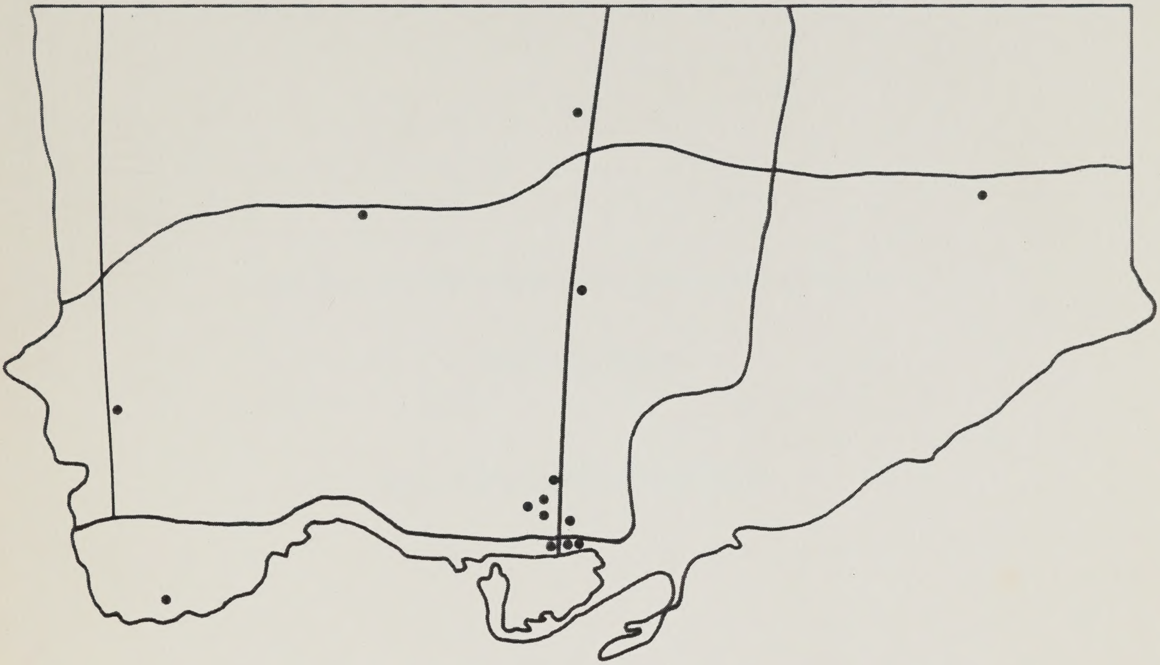
Metroplotan Toronto property
review

METRO TORONTO PROPERTY REVIEW



REPORT FOUR
EAST BAYFRONT PROPERTIES

Prepared for the Ministry of Government Services
October 1987

Comay Planning Consultants
N. Barry Lyon Consultants
Sears & Russell Consultants
David Jackson Planning Consultants

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October 1987

Table of Contents

Page

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I. PURPOSE AND SCOPE

This report is part of the overall study of the government's properties in Metro Toronto. It deals with the LCBO and OPP properties in the East Bayfront area of Toronto, and provides an assessment of a proposal by the Toronto Star to acquire these properties in order to construct a new printing plant and office building.

The assessment of the Star proposal also takes into account an expression of interest from a major bank to establish its international computer centre on a portion of the properties. In recent days it has been learned that this particular proposal may be withdrawn, and the study findings have been adapted accordingly.

The study examines alternative ways of dealing with the two properties. These include: acceptance of the Star proposal; establishing a mixed development incorporating the proposed Star buildings and a computer centre, or equivalent installation; redeveloping the two properties with intensive commercial uses; and proceeding with an interim, or short-term program for the properties, for a period of the next 10 years or so. The study examines the feasibility and implications of proceeding with each of these alternatives, and deals in particular with the property values involved.

The study takes into account the political and planning context surrounding the two sites, and reaches conclusions as to how the government should respond to current municipal initiatives regarding the zoning of the properties.

II. PLANNING CONTEXT

Site

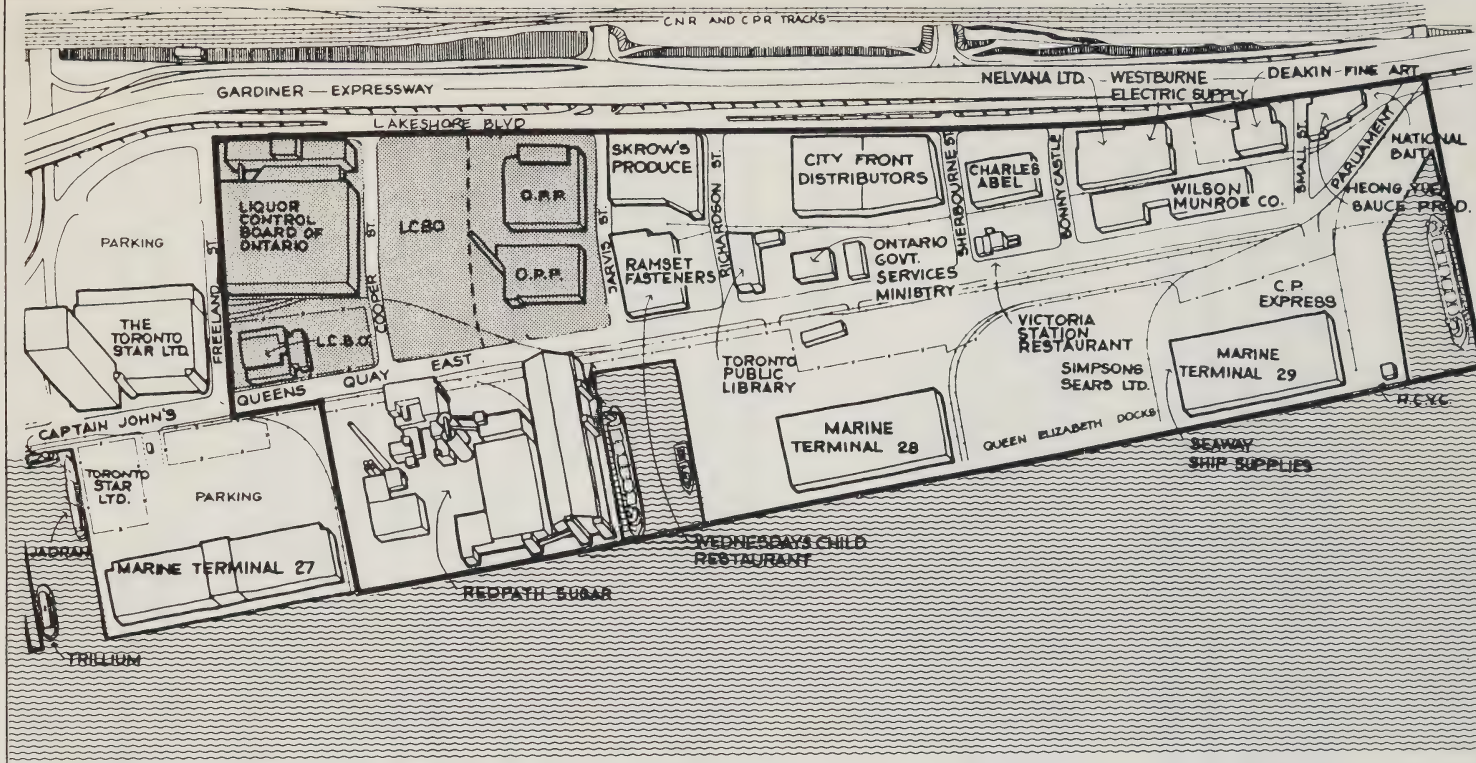
The location of the two properties is shown on the following map of the East Bayfront area. The properties cover two full blocks from Freeland Street to Jarvis, between Queen's Quay and Lakeshore Boulevard. The western block, between Freeland and Cooper, is occupied by LCBO buildings. The eastern block, from Cooper to Jarvis, contains OPP buildings, surface parking, and a small parkette.

The two properties comprise a total area of 15.5 acres, of which the LCBO has 11.4 acres and the OPP 4.1 acres. The Toronto Star proposal includes the intervening Cooper Street road allowance, and covers a total development area of 16.5 acres.

The western block covers 6.7 acres. It contains the LCBO's headquarters building, warehouse, distribution centre, laboratories and retail store, with customer parking. The eastern block comprises 8.8 acres. On the LCBO property, there are surface parking lots for LCBO employees (300 spaces) and OPP employees (100 spaces). The two OPP buildings (offices, warehouse and garage) front on Jarvis Street, at the eastern end of the block. The parkette at the south-western corner of the block is in an undedicated open area of 0.65 acres, which is used mainly as a sitting-out area for neighbourhood workers. Each block also contains railway easements.

Development Context

The two government sites lie between the central waterfront commercial/residential area and the port industrial district to the east (see second map following). The Star office building and plant, across Freeland Street to the west, and Marine Terminal 27, across Queen's Quay to the south-west, are certain to undergo



East Bayfront District

BASE MAP CITY OF TORONTO PLANNING AND DEVELOPMENT DEPARTMENT MARCH, 1982

commercial and/or residential redevelopment, as is taking place west of Yonge Street; M.T. 27 probably in the next few years, and the Star property when the present plant is vacated. Directly to the south, however, Redpath Sugar presents a stable waterfront industrial fixture with a very high replacement cost (understood to be up to $200 million), which is expected to stay in operation for the foreseeable future.

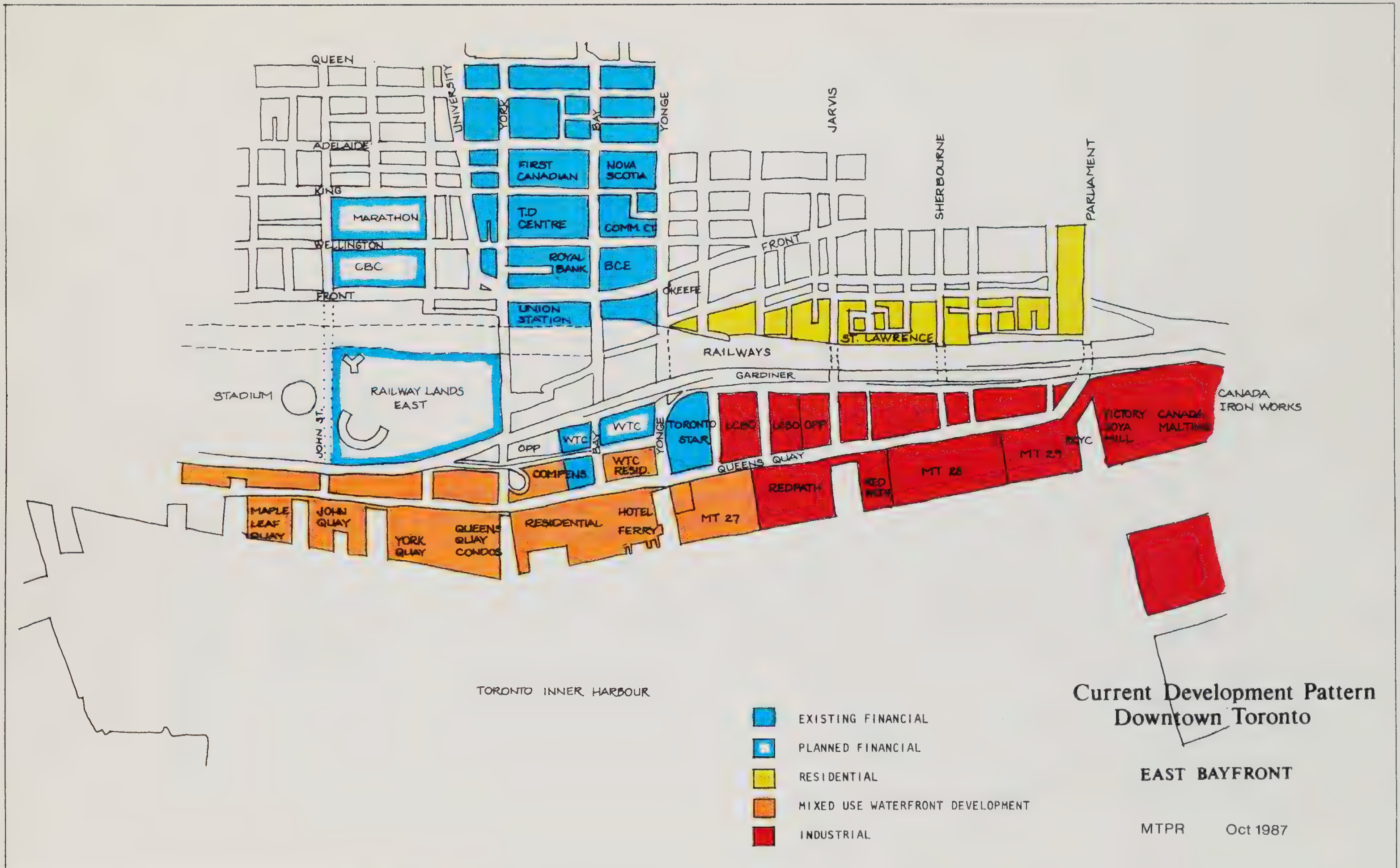
The government properties are at a critical location in the emerging waterfront development pattern. They occupy the transitional zone between the commercial/ residential concentration of the central waterfront and the true industrial area to the east.

Municipal Policy

Municipal policy concerning the East Bayfront has fluctuated over the last decade. Planning proposals in the late 1970's and early 1980's contemplated a mixture of industrial, commercial and residential uses, focusing on residential redevelopment of the Queen Elizabeth Docks (M.T. 28 and 29), directly east of Redpath.

There are still municipal sentiments favouring a mixture of residential and non-residential development in the area, in part as a way of redressing the City's failure to secure assisted housing in the central waterfront. However, the current municipal position is to treat the area as industrial. The City has tried to zone out the present commercial office entitlement east of Freeland (i.e. on the government sites), allowing only commercial uses "ancillary" to industrial activities. This ten-year-old by-law has not been dealt with by the O.M.B. In its place, the City is now proceeding to establish interim controls (1 to 2 years) while planning studies are carried out. The interim by-law is currently being processed through Council.

If the interim by-law is enacted and approved, the effect will be to freeze the lands east of Freeland to industrial uses. Certain ancillary commercial uses would be



Current Development Pattern
Downtown Toronto

EAST BAYFRONT

MTPR Oct 1987

permitted, but not data processing facilities. The effect of the by-law would be to allow the Star plant to be built on the government lands, as well as the proposed office building (on the basis that the 500,000 square feet of office space would not be the "predominant" use on the site).[1] The proposed bank computer centre would not be allowed.

It appears to be the City's intention to use the interim by-law to promote the Star's proposal for the government lands, and the interim by-law is tailored to this end. Council has strongly endorsed the Star proposal, in a report which stresses the importance of retaining the 1,000 jobs which might otherwise be moved to the Star's alternate site in Vaughan. This report states, among other things, that provincial government support is expected for "moderate" building heights and densities, and for a "primarily industrial strategy" for the East Bayfront.[2]

Development Framework

While the present City policy is to promote industrial development in the East Bayfront, the long-term development pattern is not set. It can be assumed that what happens to the two provincial properties may have an important bearing on this pattern. Alternatively, it can simply be assumed that what happens on the properties will reflect the long-term pattern.

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1 It is understood the Star now occupies only 120,000 to 140,000 square feet in the existing office building at 1 Yonge Street. The stated intention is to use the new 500,000 sq.ft. building for Star operations and "other Torstar companies". If parts of the building are in fact rented out as commercial space there would presumably have to be an interpretation as to whether the building qualifies as a permitted "ancillary" use.

2 The basis for the statements concerning provincial attitudes is not known. These particular views have not been put forward in MTPR discussions with municipal officials.

In conceptual terms, four different long-term development patterns can be postulated. These are shown as "scenarios" in the drawings which follow. They take into account the present pattern, in which the financial district has broken through the railway/expressway barrier into the central waterfront. The development pattern for the actual water "front" is also settled; running west from M.T. 27 to Ontario Place the immediate water's edge is occupied, or will be, by a mixture of residential, commercial and park uses (i.e. "Harbourfront type"). For the areas to the east, the following broad scenarios can theoretically be projected:

I. Financial-Office:

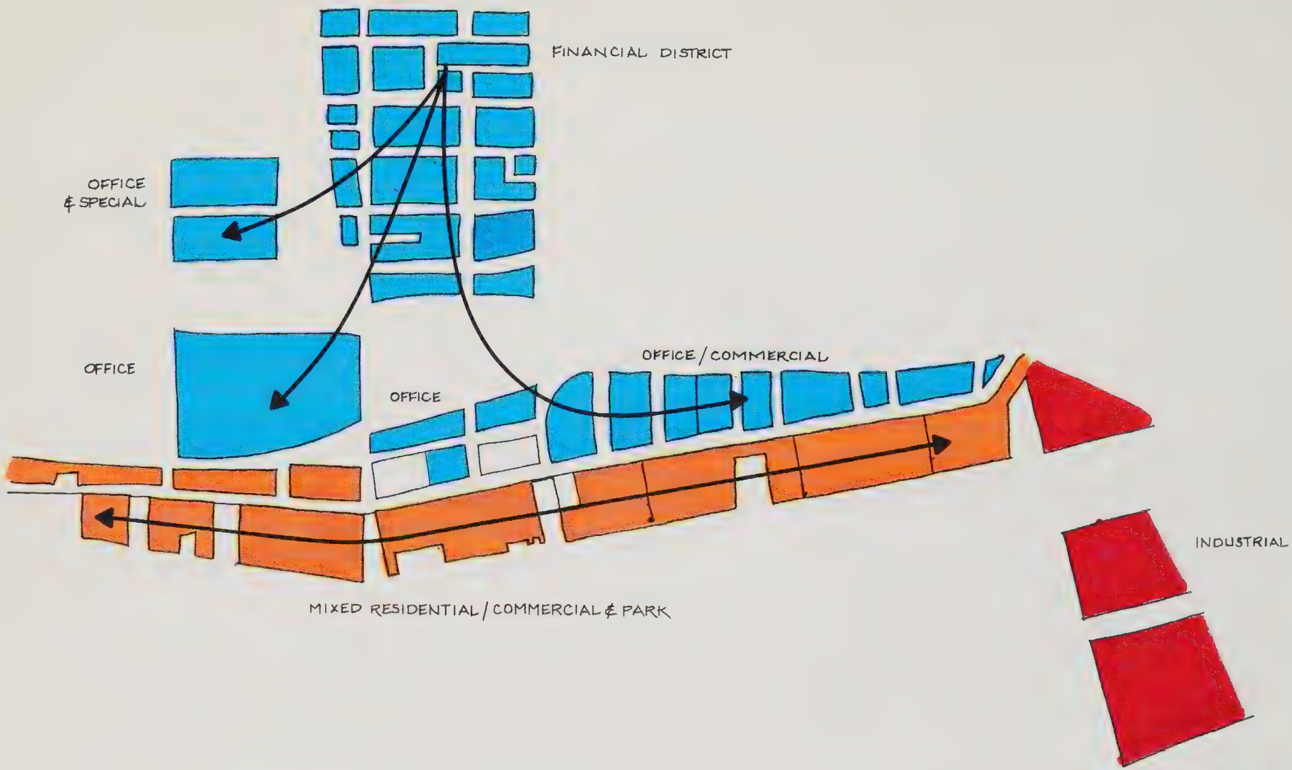
Commercial office development is progressively extended east across Yonge and north of Queen's Quay, as the area west of Yonge fills up. Harbourfront type development (mixed residential/commercial/park) is ultimately extended east along the water's edge, as and when Redpath responds to long-term market forces and relocates its operations. (This is a market-driven scenario which foretells a substantial shift in present municipal policies.)

II. Quasi-Industrial-Commercial:

As the financial district moves into the central waterfront (Waterpark Place, World Trade Centre), the areas to the east are developed with supporting commercial and quasi-industrial services (data processing, printing, etc.) and, possibly, "high tech" industries. (This is probably the intent, and possibly the outcome, of the City's present planning studies.) Ultimate waterfront development as in Scenario I might also be foreseen, though this would not be the intent of the present studies.

III. Industrial:

The financial district does not penetrate east beyond the present Star property at 1 Yonge Street, and restrictive municipal policies serve to limit the range of quasi-commercial services. Port-using industries are induced to locate at M.T. 28 and 29, and light industries north of Queen's Quay. (This could also be the outcome of the current studies.)



Future Development
Scenario I
Financial - Office

EAST BAYFRONT

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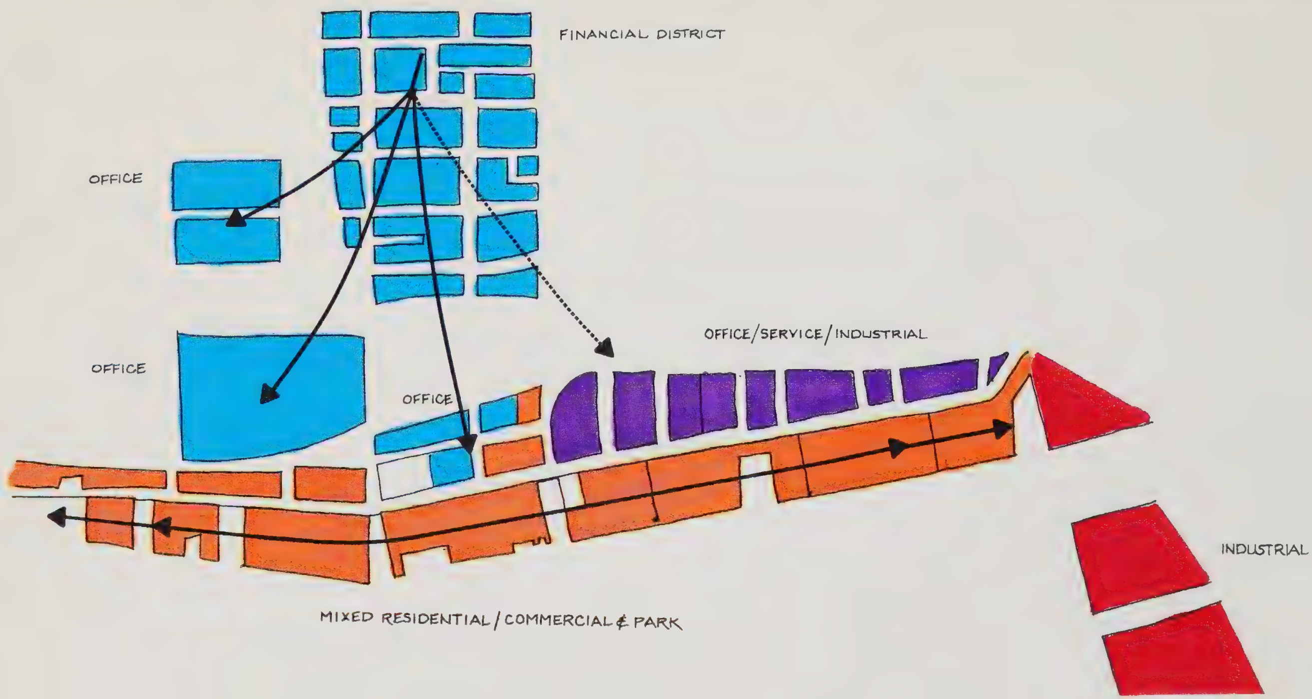

Future Development
Scenario II
Quasi-Industrial-Commercial
Light Industry and Related Services

EAST BAYFRONT

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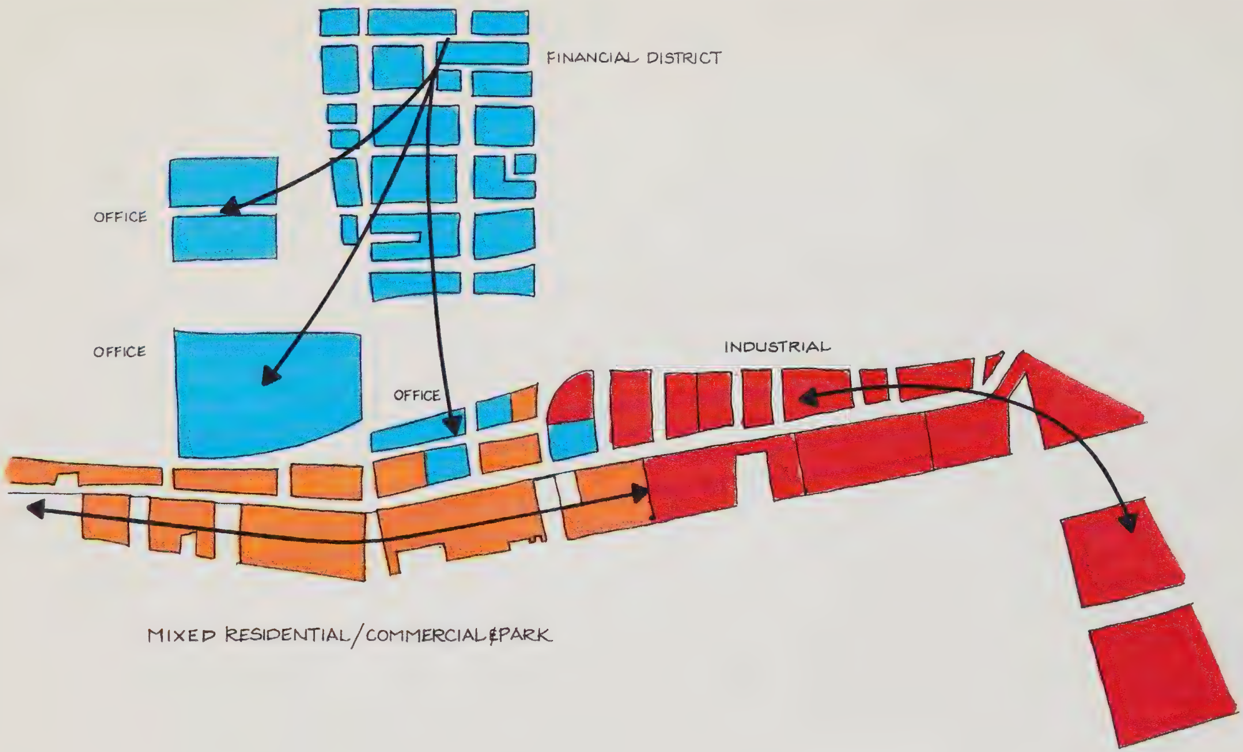

Future Development
Scenario III
Industrial

EAST BAYFRONT

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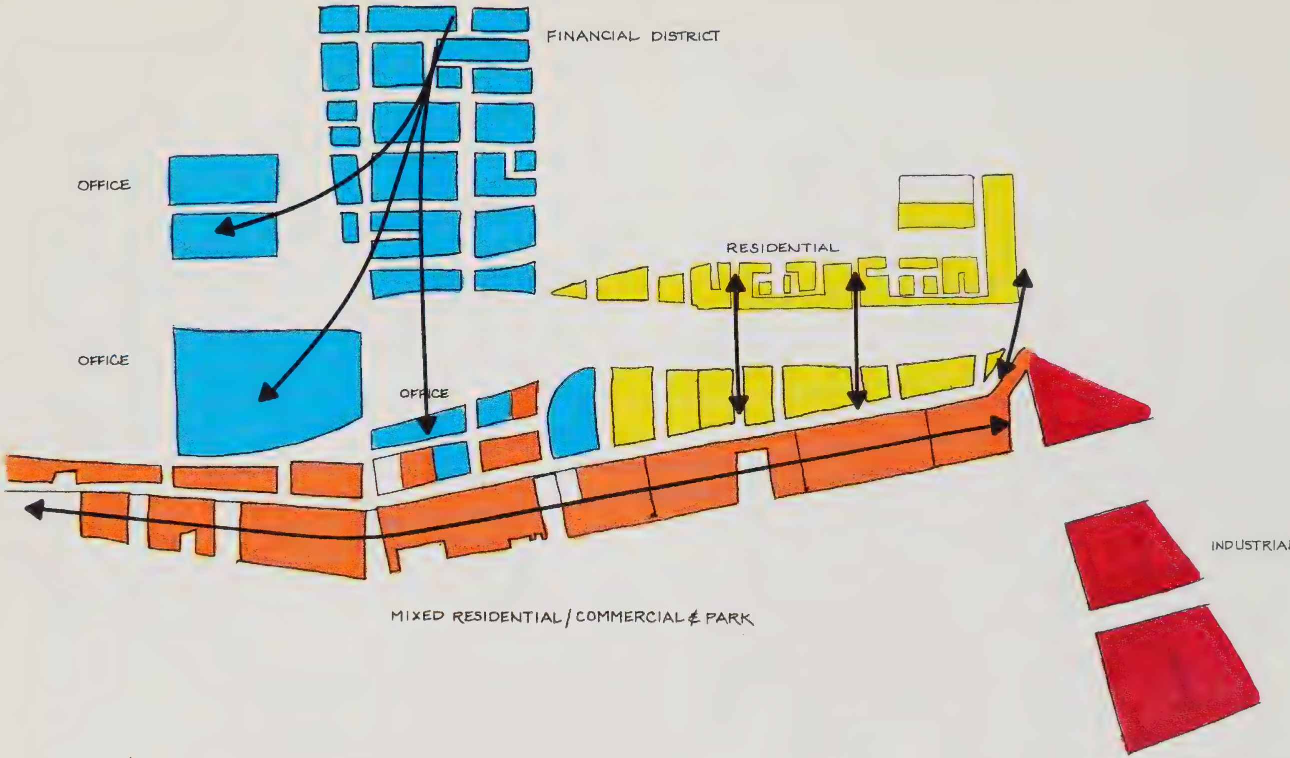

Future Development
Scenario IV
Residential

EAST BAYFRONT

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IV. Residential:

Residential development is extended across the railway/expressway barrier, at Jarvis, Sherbourne and Parliament, to link the St. Lawrence community with mixed Harbourfront-type development at M.T. 28-29 and, ultimately, Redpath. (This entails a substantial policy shift, in which housing needs are balanced against economic development goals.)

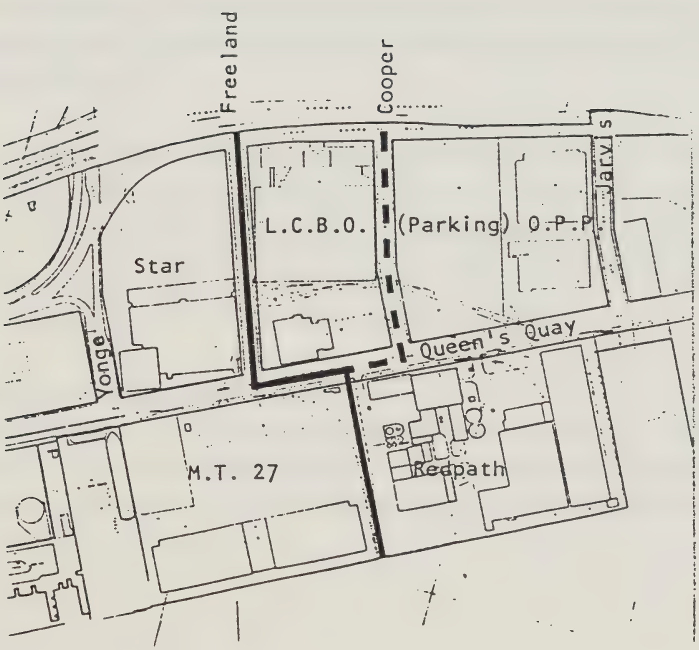
These broad scenarios serve to define a framework for dealing with the two government properties. Obviously, they are not all equally likely to take place. There are strong political, technical and market obstacles to a residential scenario, and strong market obstacles to a pure industrial scenario. It is likely that the "battle", if there is to be one, will rest in the end between a "policy-driven" quasi-industrial program and a "market-driven" commercial program. It is also possible that the ultimate outcome will represent some combination of these two patterns.

Interim Control Boundary

It is in this connection that the actual "freeze boundary" comes into play. As projected, the boundary has been defined on the basis of property ownership; that is, the LCBO/OPP sites are treated as a unit for the purpose of determining the boundary between commercial and industrial uses. This is what underlies the selection of Freeland Street as the actual boundary line.

As the following diagram shows, this is not the only reasonable way to determine this boundary, nor is it necessarily the appropriate way. It would be more sensible, from a "planning" and a "market" standpoint, to set this boundary at Cooper Street, rather than Freeland. When the boundary was originally set at Freeland, the main point at issue was to protect the Redpath operation from the possibility of residential or commercial pressure. The emergence of M.T. 27 as a mixed residential/ commercial development, as well as the actual configuration of the Freeland-

Queen's Quay-Cooper intersections, indicate that a persuasive case can be made to establish Cooper Street as the working boundary, for interim control purposes, between likely commercial and likely industrial uses. What is wrong, in other words, is to treat the LCBO property as a single "land use" unit, when it would make equal sense to treat the actual "city block" as the land use unit. This would be the conventional way to deal with this kind of an issue in terms of normal planning practice, and it is a position the government might well have been advised to pursue when the matter originally came up.



III. ALTERNATIVE DEVELOPMENT PROGRAMS

Taking the different possibilities into account, four alternative development programs have been drawn up for the LCBO and OPP properties. They are illustrated in the drawings which follow. The first drawing shows the distribution of present uses on the lands, and the succeeding drawings represent, in schematic form, the alternative programs dealt with.

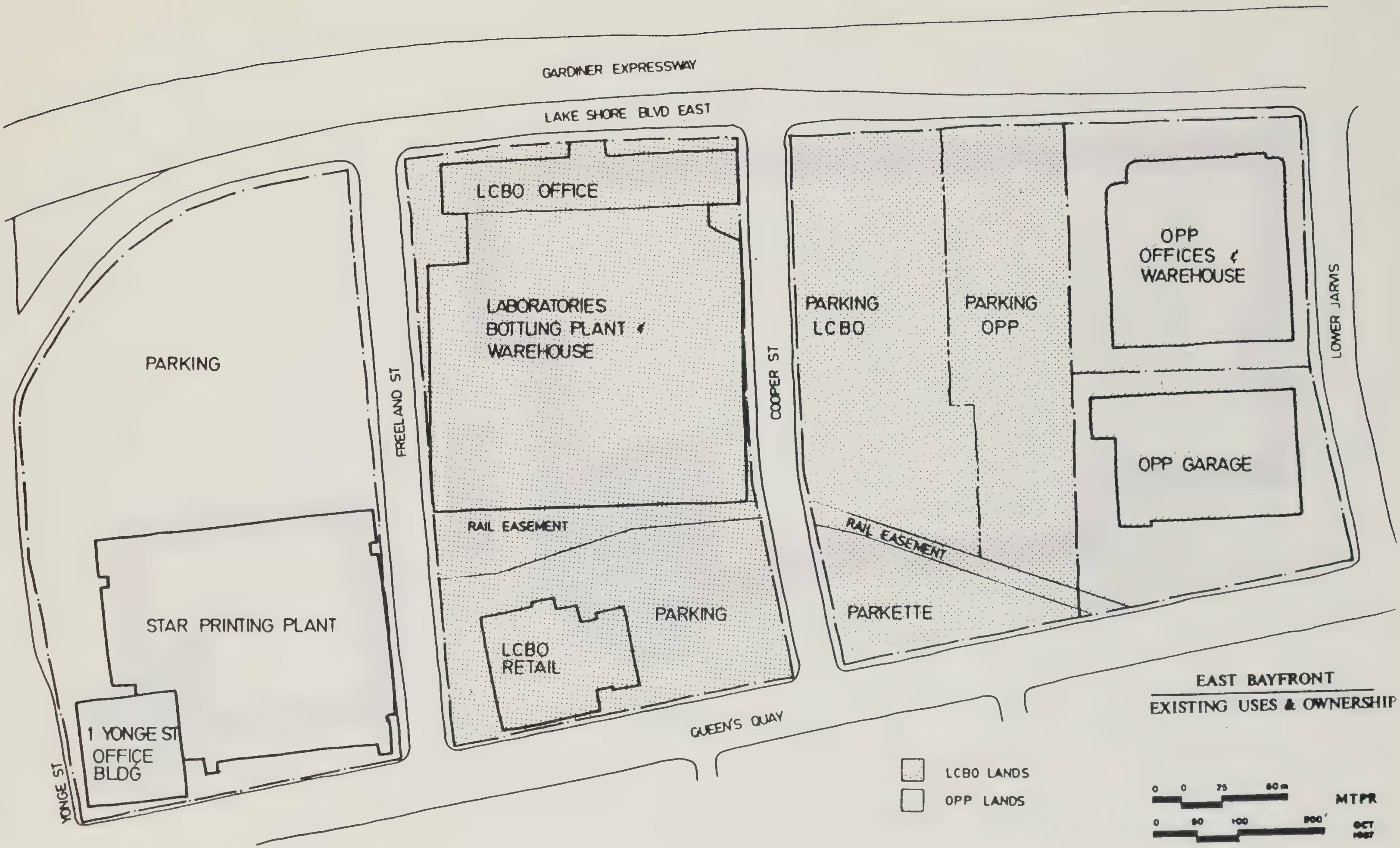
A. Toronto Star:

This is the Torstar proposal for exclusive use of the two government properties and the intervening Cooper Street roadway. It provides for a 3-storey printing plant covering the entire site, with around 900,000 square feet of floor space, and a 500,000 square foot, 13-storey office building at the south-western corner of the plant. Employee and truck parking would be provided at grade level underneath the northern section of the building, with truck access from Jarvis Street and Freeland Street. The projected development density would be around FSI=2.1.

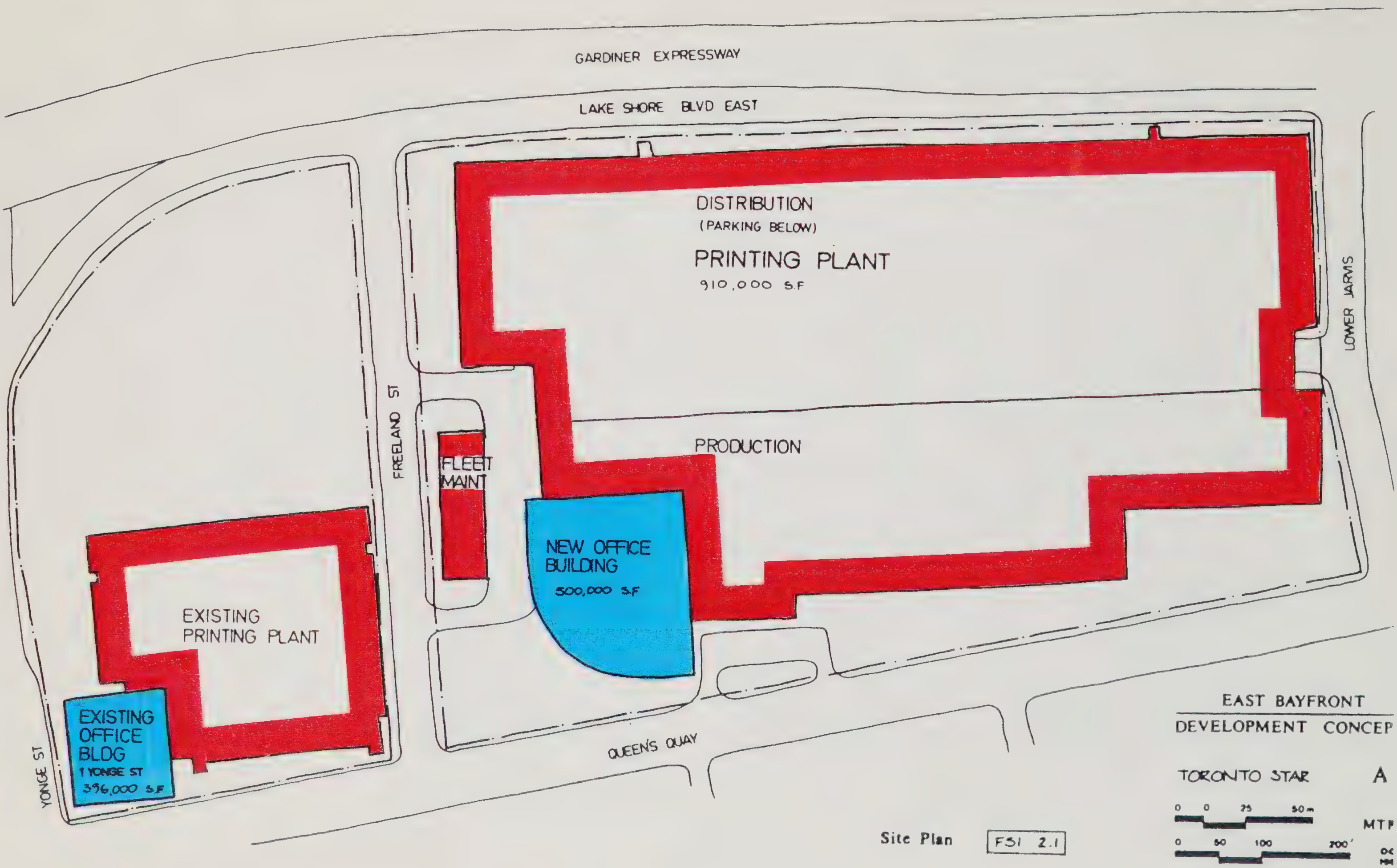
The proposal calls for staged development from west to east. On completion of the final stage (10 to 20 years after starting construction), the present plant would be demolished, and its site, together with the adjoining surface parking lot, would be available for redevelopment. (Ownership of the existing office building at 1 Yonge Street is to revert to Torstar in 2020.)

B. Toronto Star and Computer Centre:

Two alternative schemes are presented to accommodate the Toronto Star installation and the proposed computer centre. (Though the computer proposal may be withdrawn, the schemes illustrate how an equivalent kind of installation could be accommodated.)



EAST BAYFRONT
EXISTING USES & OWNERSHIP
GARDINER EXPRESSWAY
LAKE SHORE BLVD EAST
LCBO OFFICE
LABORATORIES
BOTTLING PLANT &
WAREHOUSE
PARKING
LCBO
PARKING
OPP
OPP
OFFICES &
WAREHOUSE
OPP GARAGE
LOWER JARVIS
PARKING
FREELAND ST
COOPER ST
RAIL EASEMENT
RAIL EASEMENT
PARKING
PARKETTE
LCBO
RETAIL
STAR PRINTING PLANT
1 YONGE ST
OFFICE
BLDG
YONGE ST
QUEEN'S QUAY
LCBO LANDS
OPP LANDS
MTPR

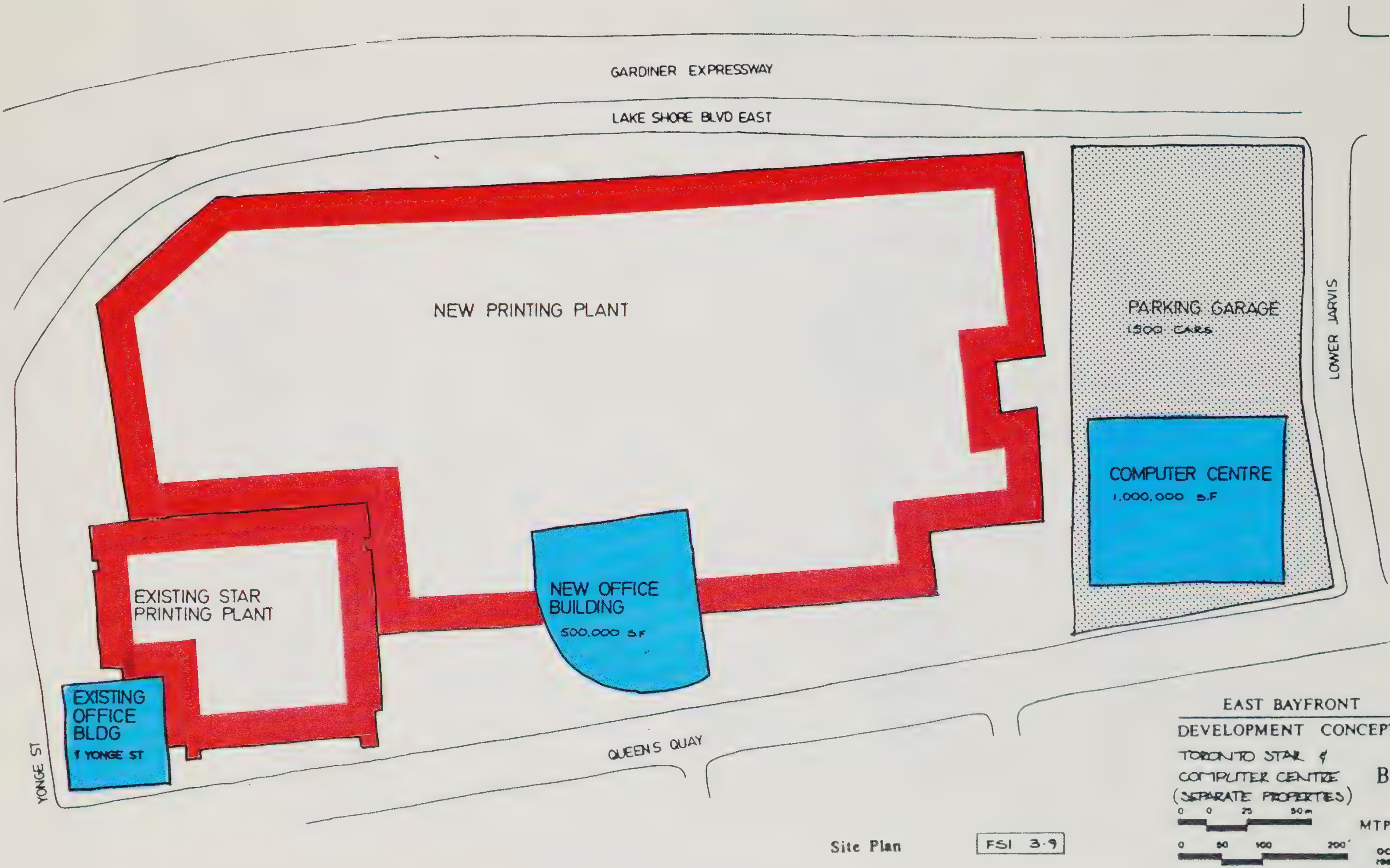

GARDINER EXPRESSWAY
LAKE SHORE BLVD EAST
DISTRIBUTION
(PARKING BELOW)
PRINTING PLANT
910,000 S.F
PRODUCTION
LOWER JARVIS
FREELAND ST
FLEET MAINT
NEW OFFICE BUILDING
500,000 S.F
EXISTING PRINTING PLANT
EXISTING OFFICE BLDG
1 YONGE ST
396,000 S.F
YONGE ST
QUEEN'S QUAY
EAST BAYFRONT
DEVELOPMENT CONCEP
TORONTO STAR
A
0 0 25 50m
MTF
0 50 100 200'
FSI 2.1
Site Plan

Scheme B-1 merges the LCBO property with the present Torstar property west of Freeland for the new printing plant and office building. It would involve re-staging of the plant building program, with the present plant being demolished prior to building the final stage of the new plant. This scheme provides for separate development of the computer centre building (1 million sq.ft., 20 floors) and its associated parking garage on the OPP property, so that development of the two uses could proceed independently. The development density for this scheme would be around FSI=3.9.

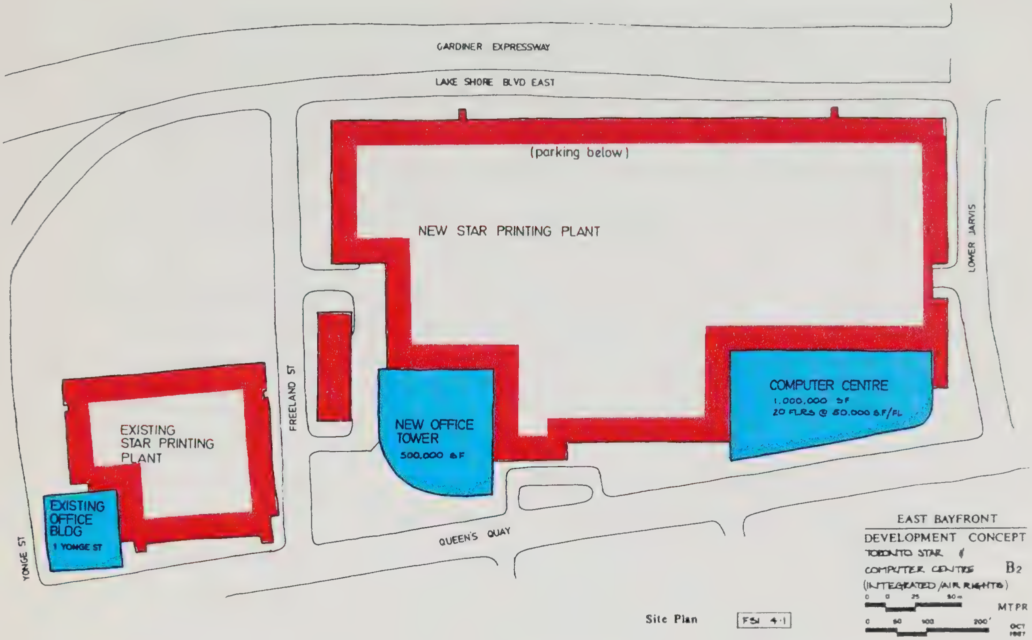
Scheme B-2 provides for integrated development of the two uses on the government sites. The printing plant and office building would be built as proposed, and the computer centre would be developed using air rights at the south-eastern corner of the plant building. Provision of parking for both groups of employees would require incorporating a parking structure in the building. The development density for this scheme would be around FSI=4.1.

For both schemes parking would be provided both below and above grade, with the above-grade space included in the FSI calculation.

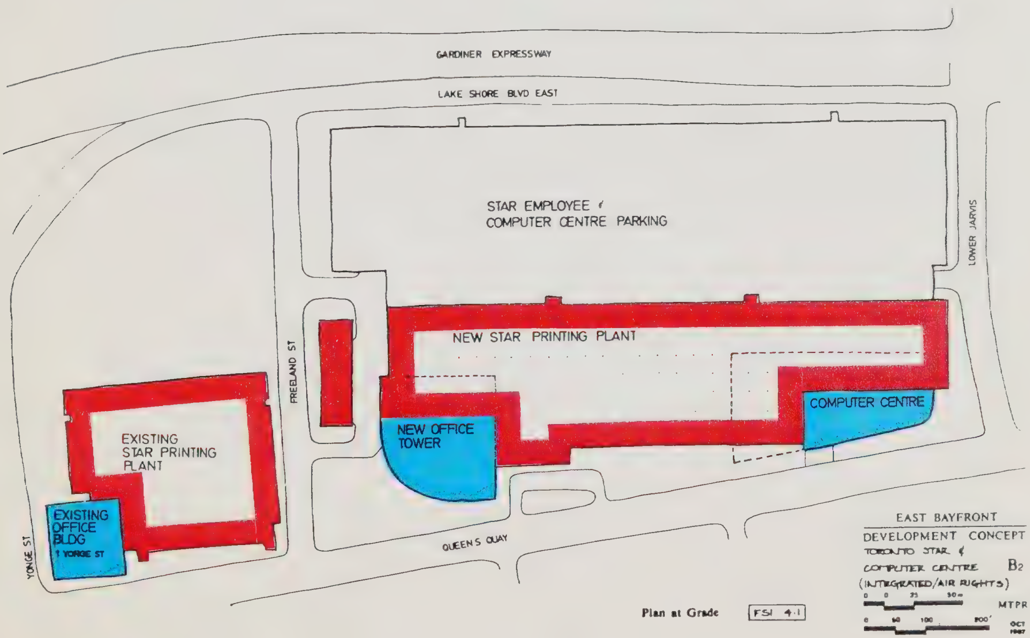
It is understood that the Star's proposed staging program, which calls for retention of the present plant until the final stage of the new plant is in operation, militates against a scheme such as B-1. Concerning either kind of arrangement, the preliminary response from Torstar officials is that they are not, as yet, "satisfied it will work".


GARDINER EXPRESSWAY
LAKE SHORE BLVD EAST
NEW PRINTING PLANT
PARKING GARAGE
1500 CARS
LOWER JARVIS
COMPUTER CENTRE
1,000,000 S.F
EXISTING STAR
PRINTING PLANT
NEW OFFICE
BUILDING
500,000 S.F
EXISTING
OFFICE
BLDG
1 YONGE ST
YONGE ST
QUEENS QUAY
EAST BAYFRONT
DEVELOPMENT CONCEPT
TORONTO STAR &
COMPUTER CENTRE
(SEPARATE PROPERTIES)
B1
0 0 25 50 m
0 50 100 200'
MTPR
OCT 1987
FSI 3.9

Site Plan



Site Plan FSI 4·1



Plan at Grade FSI 4·1

To determine that either kind of scheme could actually be carried out would require detailed study. It is considered that the problems are of a physical and technical nature, and that they can be solved within the bounds of conventional building practice, albeit at a price. For the integrated scheme (B-2) it would be necessary to utilize some form of joint development mechanism between the Star and the computer centre.

C. Commercial, Computer Centre, LCBO Retail:
This scheme represents the possible development that could take place if it is determined that the government properties should ultimately be made available for commercial office development, with Cooper Street left in place. The properties could accommodate three commercial office buildings (each 500,000 square feet, 20 storeys); the proposed computer centre (1,000,000 square feet); and an enlarged LCBO retail store, with adjacent customer parking. The scheme also provides for two large public parking garages and surface parking, with a total capacity of 3,400 spaces to meet the anticipated central waterfront parking demand. The projected development density would be FSI=4.8.

This scheme illustrates the potential long-term development capacity for the government properties, if a commercial development pattern materializes. It also shows what could take place on the western block if the commercial/industrial boundary line is set at Cooper Street instead of Freeland: 1 million square feet of commercial office space, and public parking for 1,000+ cars. (Presumably, it would also be able to provide for the LCBO retail store in this block.)

The market for this scale of commercial office development is not yet in place, and might take an extended period of time to materialize. It is likely, though, that when the present Star property is redeveloped, the Freeland-Cooper block will become ripe for commercial development as well.

It should be noted that present road facilities are suitable for accommodating commercial development at the 1 million square foot level. A development volume of 2 million square feet would generate excessive traffic demand, which could be alleviated either by substantial road improvements or through increased transit usage on the new Harbourfront transit line (two blocks to the west), and other surface transit.

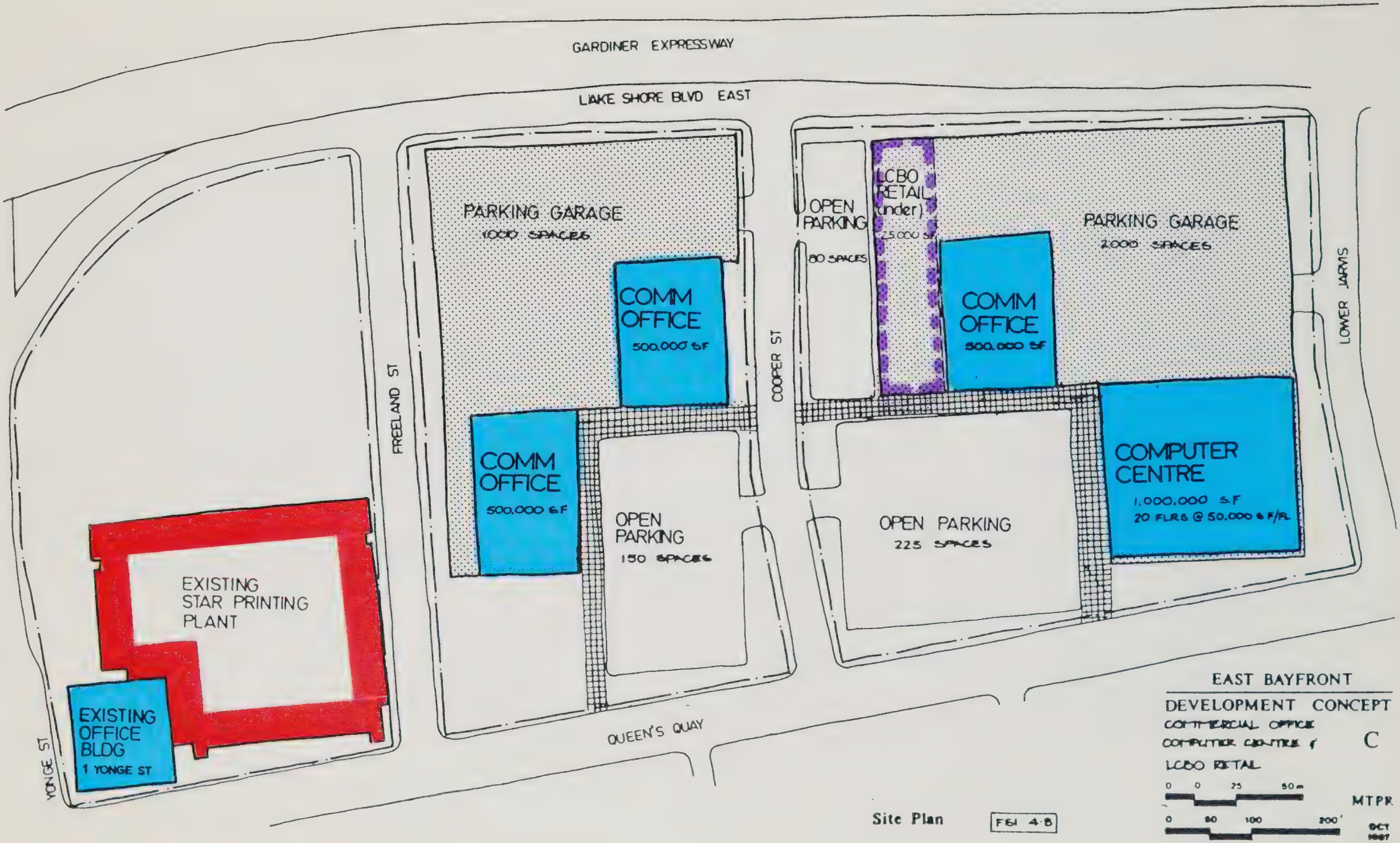
D. Interim Development:

An interim development program would provide for the present LCBO facilities to remain in place for a period of time. The economic life of the recent capital improvements ($2 million) is understood to be 5 to 7 years, and it would be reasonable to project a 10-year period for the LCBO to remain at this location.

Two interim schemes are projected:

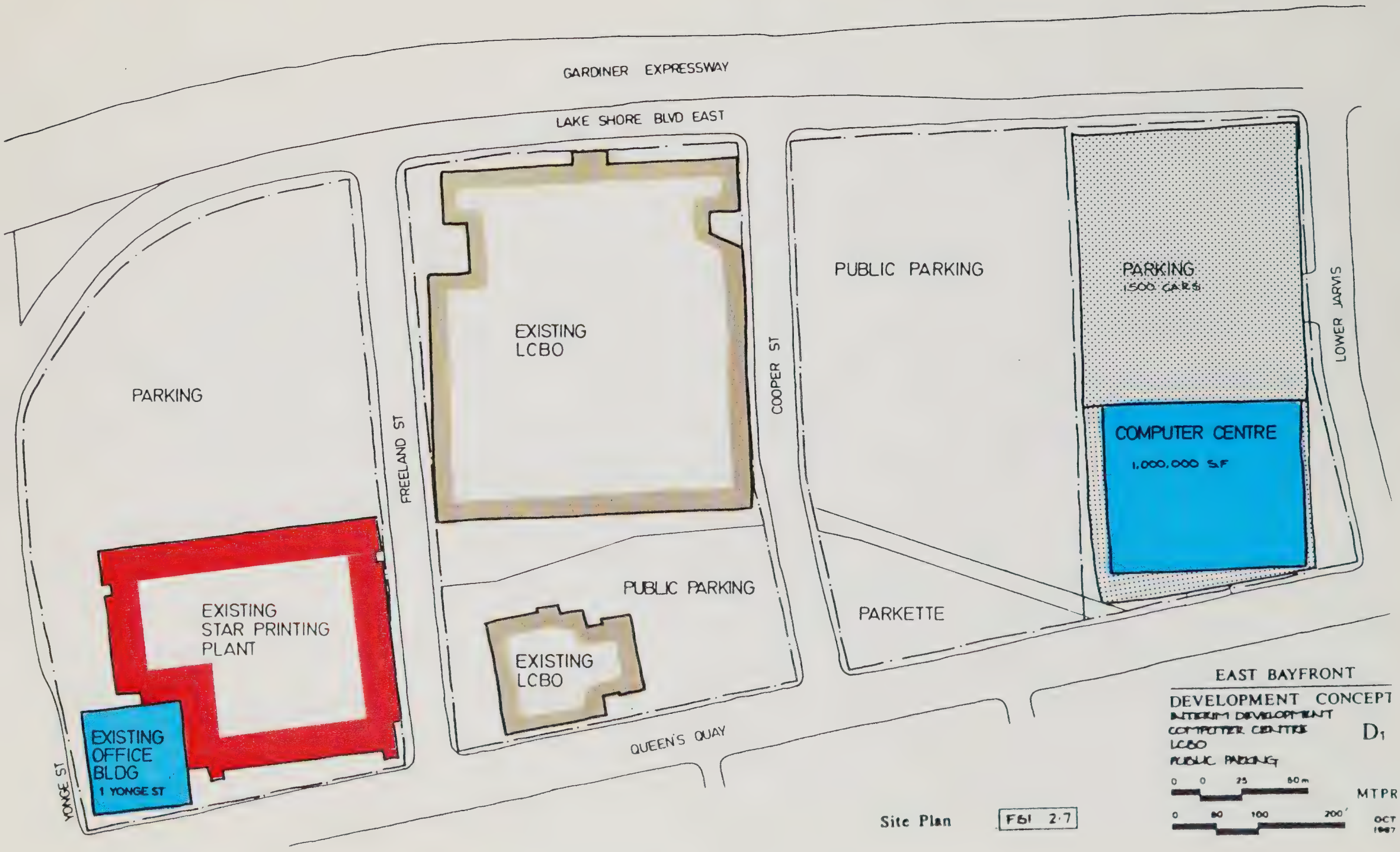
Scheme D-1 assumes that the OPP buildings would be cleared when the OPP relocation is completed in 1991, and that the OPP property would be available for new development. As in the other schemes, the proposed computer centre or an equivalent development, with a 1,500 space parking garage, is projected for the western end of the block. The eastern end of the block would be made available for surface public parking, to meet the anticipated demand, and the existing LCBO installations in the Cooper-Freeland block would remain in place.

Scheme D-2 provides for both the LCBO and the OPP buildings to be left in place, with the latter made available for short-term industrial or quasi-commercial uses. The present OPP offices provide suitable Class C office space, and there will be a suitable market for the garage and warehouse space as well.

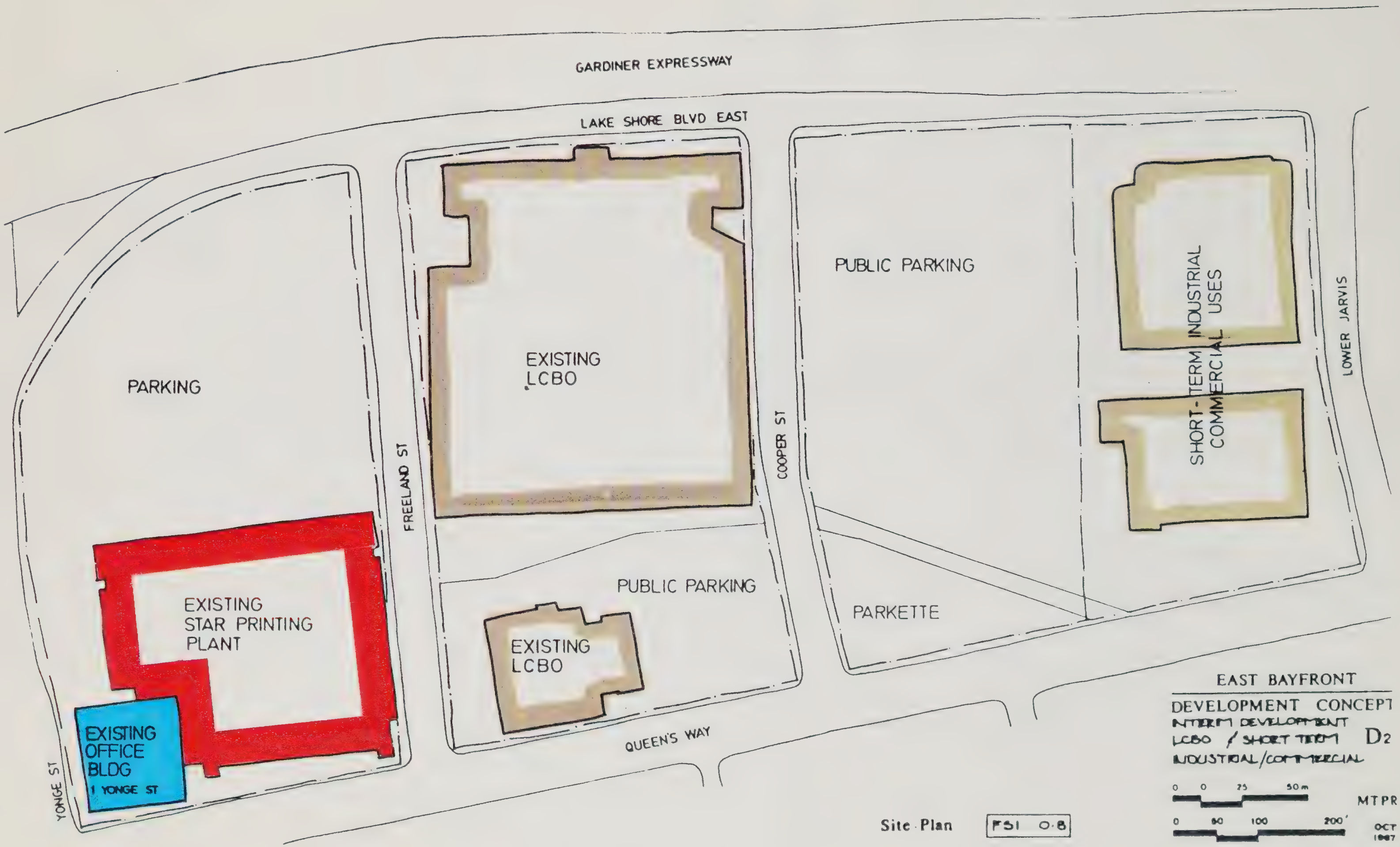


Site Plan FEI 4·8

The interim programs assume that until the long-term development prospects for the area have emerged in a definitive form, and until the long-term values have materialized, it would be advisable to keep the LCBO operation in the present facilities to the end of their useful economic life. If a market can be established to redevelop the OPP site, this would be a suitable way to proceed; otherwise, these buildings could also be retained on an economic basis until the long-term picture has clarified.



Site Plan FSI 2·7


GARDINER EXPRESSWAY
LAKE SHORE BLVD EAST
PARKING
EXISTING LCBO
PUBLIC PARKING
SHORT-TERM INDUSTRIAL COMMERCIAL USES
LOWER JARVIS
FREELAND ST
COOPER ST
PUBLIC PARKING
PARKETTE
EXISTING STAR PRINTING PLANT
EXISTING LCBO
EXISTING OFFICE BLDG
1 YONGE ST
YONGE ST
QUEEN'S WAY
Site Plan
FSI 0.8
EAST BAYFRONT
DEVELOPMENT CONCEPT
INTERIM DEVELOPMENT
LCBO / SHORT TERM D2
INDUSTRIAL/COMMERCIAL
0 0 25 50m
0 50 100 200'
MTPR
OCT 1987

IV. EVALUATION OF ALTERNATIVES

Assessment of the alternative programs for the sites involves property values, public policy implications, and internal operating considerations. The decision as to how to proceed can be expected to take many factors into account, but is likely, in the end, to be essentially "value driven", or "policy driven", or "operationally driven".

These factors are outlined below.

PROPERTY VALUES

The estimated market and development values of the two properties are analyzed in Appendix 1, and are summarized as follows:

		LCBO Site ($ million)	OPP Site ($ million)	Total ($ million)
Current Market Value		$41.7	$13.0	$54.7
A:	Star (exclusive use)	3.4	1.7	5.1
B-1:	Star (LCBO + Star sites) Computer Centre (OPP site)	3.5	29.5	33.0
B-2:	Star & Computer Centre (Integrated air rights)	18.5	6.6	25.1
C:	Commercial office + Computer Centre + LCBO retail	58.5	29.5	88.0
D-1:	Interim (LCBO + Computer Centre on OPP site)	12.0	29.5	41.5
D-2:	Interim (LCBO + short-term uses, OPP buildings)	12.0	2.1	14.1

Current Market Value: $55 million

The estimated land value incorporates normal market considerations that would be operative in this situation: the likely expectation of quasi-commercial development on the property; the market value of the existing LCBO office building; and the long-term prospects for value appreciation. Demolition costs are taken into account (as is also the case for the projected development values).

Development Values

A: Toronto Star (exclusive use): $5 million

The operative assumption is that the property would be acquired by Torstar at a cost approximating premium suburban industrial land prices. This is the basic formulation in the Torstar proposal and is also cited as the "understanding" in the Planning Department's report recommending Council support of the proposal: *"... that the Star will be offering market value for the lands, having regard for the land-use and built form objectives which the City (and I assume the Province as well) will be seeking to secure for the East Bayfront."* The estimated value of the Star proposal is based on an assumption of $12 per square foot land price, or $1/2 million per acre.

B-1: Star (merged sites) & Computer Centre (OPP site): $33 million

This assumes that the LCBO site, which would be merged with the Star's present property, would be sold at an industrial value. The value of the OPP property for the Computer Centre (or equivalent use) would be based on an assumption of $30 per square foot for quasi-commercial floor space.

B-2: Star & Computer Centre (integrated air rights): $25 million

Star buildings are valued at industrial prices ($12/square foot of land) and the Computer Centre at $20/square foot floor space (because of using air rights rather than a free-standing building). The total net value of $25.1 million is allocated to the LCBO and OPP sites on a pro-rated basis relative to size of parcel.

C: Commercial Office, Computer Centre, LCBO store: $88 million

The LCBO property is valued for two commercial office buildings at $40/square foot floor space. The OPP property is valued for one commercial office building and LCBO retail space ($40/square foot), and quasi-commercial building ($30/square foot).

D-1: (Interim) LCBO & Computer Centre (OPP Site): $42 million

The OPP site is valued as in B-1 and C (quasi-commercial floor space @ $30/square foot). The LCBO buildings are assigned a notional value based on projected cash flow from assumed rental rates ($9/square foot for offices and retail; $4.50/square foot for bottling plant and warehouse). As the LCBO now owns the property and does not make lease payments, this notional value could be considered an academic construct; however it serves to establish the comparative value (or cost) of retaining the LCBO facilities on the site. This does not, of course, represent the long-term value.

D-2: (Interim) LCBO & Short-term Uses (OPP Buildings): $14 million

In this scenario, the LCBO facilities are valued notionally as in D-1, and the OPP buildings are valued on the basis of projected cash flow at assumed rental rates of $7.50/square foot for the office space and $4.50/square foot for the warehouse and garage space. (This is not, again, the long-term value.)

From these projections, it is clear that with the Star's proposal, the properties would be seriously undervalued, both as against their present value on the open market and as against other ways of dealing with the properties. The projected

differential of $50 million from current market value, and of $20 to $35 million from feasible alternatives (Schemes B-2 and D-1) can be interpreted as representing the range of "opportunity costs" incurred by proceeding with the Torstar proposal.

It is instructive that the indicated value of the Star proposal is only around 1/3 of the value represented by leaving things as they are: retaining the LCBO facilities and renting out the OPP buildings for short-term uses when the OPP is relocated (Scheme D-2). It can also be noted that the projected value of the Star proposal, $1/2 million per acre, is less than 1/5 of the price of $2.7 million per acre that was paid for the M.T. 27 site on the south side of Queen's Quay (a price which was seriously criticized at City Council as being below value and thus a misuse of public land).

POLICY IMPLICATIONS

The Star states that if it cannot secure the provincial property the plant will be moved to Vaughan, and the City's support of the proposal derives, in part at least, from the prospective loss of 1,000 jobs (as well as the assumption that the Star proposal will help to promote other industrial development in the vicinity). There are, in fact, alternative sites available in Toronto for the newspaper plant, on authentic industrial land east of Parliament or in the new industrial estate the City and the THC are promoting east of Leslie.

Preventing 1,000 jobs from going to Vaughan might or might not be considered a matter of provincial interest; certainly, it is difficult to envisage a strong provincial

statement identifying this as a matter of provincial concern. Nevertheless, the City's general economic development thrust represents a policy initiative that has to be taken seriously.

The matter of concern is the pivotal location of the provincial properties, in particular the western LCBO block, which to all intents and purposes marks the eastern edge of the present central waterfront and is obviously suited for central waterfront uses (only marginally less so than the adjacent Star property itself). That this is the case is reflected in the projected development values, which simply document the economic realities. What is at issue is whether it is appropriate to use such substantial public assets (the value of the provincial lands) in the furtherance of current municipal policies that run sharply counter to this economic realitv.

There can be no question that the Star proposal as such is unacceptable. If the government feels it is obliged to support municipal policy, a compromise should be sought. That is essentially the purpose of the alternate proposals to incorporate with the Star plant a legitimate quasi-commercial activity that would probably fit comfortably within the City's emerging land use policies and which would generate at least part of the public revenue the properties should command.

OPERATING CONSIDERATIONS

Since the OPP will be relocated to its new headquarters site by 1991, this property could be available in time to accommodate the Star's proposed phasing program. It would also be available relatively early for any other redevelopment. This may not be the case with the LCBO however.

The various LCBO facilities are generally relocatable, in the sense that they do not have difficult locational requirements. The headquarters office services could be established at a variety of suitable locations, but for some of the other facilities, such as the distribution centre, the private stock pick-up and the retail outlet, a central location is considered to be desirable. The more complicated issues concern the bottling and laboratory operations.

It is understood that the bottling equipment is too obsolete to be moved, and that vacating the present site will require a fundamental policy decision as to whether to abandon the bottling operation entirely or to resume it at a new location, with an indicated capital investment of substantial proportions. It would also be difficult to re-establish the head office laboratory facilities in a conventional office building, and they could thus present a relocation problem as well.

Recent capital improvements for the laboratories and retail facilities amount to $2 million, an investment with an estimated economic life of 5 to 7 years and one that would presumably have to be substantially written off if the LCBO is to be moved at an early date. It is understood that it would probably take a period of 4 to 5 years to vacate the site.

It is evident that consideration of the Star's proposal will involve serious questions with regard to relocating the LCBO Among them is the fact that such a move could entail very high costs, a factor that would presumably have to be taken into account in establishing the sale price of the property.

EVALUATION SUMMARY

As stated earlier, the decision as to how to proceed can be value-driven, policy-driven, or operationally-driven. It might also be politically-driven. While the actual decision will obviously not derive from any single factor, it is useful to note the relevant considerations:

- o The operational factors are of a serious nature. Given the LCBO's circumstances, it would be inadvisable to force an early move, unless there were over-riding benefits or advantages to be secured. There also has to be a firm assurance that such a move makes financial sense.

- o The monetary considerations are very significant. The opportunity costs of a decision to dispose of the property as pure industrial land are very high; there would, again, have to be over-riding benefits to be secured from such an action.

- o These benefits presumably rest in the area of public policy. The question is whether the City's economic development and planning needs, as they are currently expressed, are of a kind and scale to warrant the very heavy financial loss and the operational dislocation which acceptance of the Star's proposal will entail.

The following can be concluded concerning the alternative development programs:

- o The Star proposal (Scheme A) is unacceptable.

- o The proposals for mixed development (B-1 and B-2) are acceptable, in that they would generate reasonable revenue and would help to support the municipal planning and economic development policies. It would have to be established if these schemes are physically feasible. It would also have to be determined if it is

feasible, and financially justifiable, to move the LCBO from the site within the short time period involved.

- The commercial office alternative (Scheme C) would provide a suitable long-term prospect for the properties, and could well represent a reasonable development target if the present uses, or other short-term uses, are maintained for a period of time, perhaps 10 years or so.

- The interim schemes (D-1 and D-2) provide a satisfactory way to deal with the property over the short term, in that they would minimize operational dislocation and would allow present activities to continue for as long as might be necessary to capitalize on the true value of the two sites. They would, in effect, allow the government to keep its options open.

V. CONCLUSIONS

1. The most appropriate use for the government properties at East Bayfront has not yet been settled. Despite the City's present position that they should be treated as industrial land, the situation is volatile. Neither residential development nor pure industrial development represent a reasonable prospect for this area. What is still uncertain is whether the entire area east of Freeland will be devoted to quasi-commercial and industrial support services, or whether and to what extent central waterfront commercial development will extend into this area. Current market values reflect at least the first of these possibilities, but pure commercial market values represent a reasonable long-term prospect.

2. A range of actions can be taken with respect to the properties. At one end, the industrial use of the properties could be confirmed by accepting the Star's proposal to acquire the sites at an industrial land price. The other end of the range would be an interim program until the long-term prospects have been clarified. An intermediate course of action would be to accommodate the Star in a way which allows a reasonable utilization of the property potential. It is important to note that the provincial interest in the properties is not the same as that of the City and that of the Star. The positions taken by the Star and by the City may be reasonable from their standpoint, but are not reasonable from a provincial standpoint.

3. Everything being equal, the appropriate action would be to leave the properties alone until the long-term development pattern and the associated land values have materialized. A suitable program would be to retain the LCBO operations for a period of perhaps 10 years, and make the OPP site available for quasi-commercial development. Even a caretaker program for the OPP buildings (short-term commercial or industrial uses) would provide a suitable way for the government to leave its options open, rather than acting to set the pattern for the area.

4. In specific terms, the following conclusions can be drawn:

- The Star's proposal to acquire the properties for the construction of its printing plant and office building, at what are essentially industrial land costs, is unacceptable and should be rejected. It would represent a potential loss of $50 million from what the properties would bring on the open market, and a loss of at least $20 to $35 million from the likely return from other reasonable kinds of development. The net return would be only 1/3 of the value of the present use of the site, and would be equivalent, on an acreage basis, to around 1/5 of the price recently paid for Marine Terminal 27, directly across Queen's Quay from the LCBO. The proposal would have to be interpreted as constituting a"land grab" of fairly extreme proportions.

- The Star's proposal would involve serious dislocation for the present LCBO activities, particularly the bottling and laboratory operations. It would require writing off a substantial investment in capital improvements and would probably involve substantial relocation costs.

- There is a strong municipal interest in having the Star accommodated on the properties. If it is considered necessary to accede or respond to this interest, this should take place only if it is possible to establish a mixed development on the site, incorporating a quasi-commercial use such as the proposed 1 million sq. ft. computer centre or equivalent. This would probably fit into the City's evolving policies for the area and would provide a more satisfactory return on the property, though still well below market value. To do so would require detailed studies to establish the physical feasibility and financial mechanisms for such a mixed development (essentially using air rights over the printing plant). This is considered the only acceptable way to accommodate the Star on the property.

- If the political imperatives require exclusive Star use of the property, this should be done on a lease basis, rather than by outright sale. This would allow the government to retain the long-term value appreciation at the end of the economic

life of the printing installations, around 30 years. Even a lease transaction would be problematic. Normal practices, based on market value, would indicate an annual rental not much short of what the Star would presumably want to pay for the property outright, as industrial land. Lease payments geared to an industrial value would be at an almost derisory level. A defensible kind of lease transaction would necessitate a separate valuation of the printing plant and the office building, as a bare minimum.

5. The issue is complicated by the imminent zoning freeze on the properties, which will have the effect of promoting the Star's proposal to the exclusion of alternative ways of dealing with the sites. The designated boundary between commercial and industrial uses is Freeland Street, which lies between the Star property (1 Yonge) and the LCBO property. An equally appropriate boundary, even for interim control purposes, would be Cooper Street, 350 feet to the east, which runs between the two LCBO blocks. This would allow for future development consistent with what will be taking place on the adjacent lands (Torstar and M.T. 27); which conforms to economic reality (a potential land value of nearly $40 million for this part of the LCBO holdings); and which reflects conventional planning practice. It should be as effective in protecting Redpath Sugar from residential or commercial pressure, the original intent of the Freeland Street boundary. This is a position that the government should have taken when the original boundary line was established, and which it should now pursue while the interim control by-law is being dealt with.

RECOMMENDATIONS

1. The Toronto Star proposal should not be accepted.

2. The government should take appropriate steps to have the boundary of the interim commercial/industrial "freeze" moved from Freeland Street to Cooper Street.

3. The most appropriate way to proceed would be to retain the LCBO facilities to the end of their useful economic life, and redevelop the OPP property with quasi-commercial uses, or secure short-term uses for the OPP buildings when they are vacated.

4. If the government finds it necessary to accede to the City's support for the Star proposal, this should be on the basis of an integrated development which accommodates another quasi-commercial building, such as the proposed 1 million sq.ft. computer centre. This will require detailed physical and financial study.

5. If the government finds exclusive Star use of the property appropriate, this should be on a lease basis for the economic life of the plant, rather than outright sale. The lease should have a reasonable relationship to market value, and should take into account the value of the proposed office building as well as the printing plant.

APPENDIX

MARKET ASSESSMENT AND ESTIMATE OF VALUES

EAST BAYFRONT PROPERTIES

METRO TORONTO PROPERTY REVIEW

EAST BAYFRONT SITE

1. ESTIMATE OF VALUE

The market value of the Province's East Bayfront site is estimated at $54.7 million. This value is generated by quasi-commercial land uses, by the market value of the LCBO's present commercial office building, and in consideration of the prospects for the long term value appreciation of the land. (See Exhibit I)

A key factor in determining the site's value is its proximity to new, large scale developments on the central waterfront and in the downtown core. Within a relatively short distance of the Province's land is Campeau's Waterpark Place office development, York Hannover's proposed World Trade Centre, the recently approved Harbourfront transit line, the York Quay condominiums, Harbourfront, The Esplanade Condominiums, The Hotel Novotel and BCE Place. As this activity indicates, the southern expansion of the downtown commercial sector is moving closer to the East Bayfront site. Although the Avro Group has not made its development plans for the Marine Terminal 27 site known, this project is bound to go ahead and will have a strong and positive influence on the development appeal of the East Bayfront site.

Although its locational assets are strong, it should be recognized that the Province's site does have some competitive disadvantages, inasmuch as it is on the north side of Queen's Quay, and not on the

water. The site is still outside the focus of development activity along the waterfront, which is moving and concentrating to the west.

The present zoning of the East Bayfront land permits commercial development. However, in 1976, City Council voted to prohibit such development east of Yonge Street and south of Lakeshore Boulevard, excluding One Yonge Street, but including the East Bayfront site. Even though this By-law (356-76) was never adopted, it will likely be confirmed by an interim control by-law, presently being debated by council.

The City intends to reinforce its present industrial base east of Yonge Street (excluding Marine Terminal 27), through this rezoning. This is not necessarily bad news, as developers have generally found it possible to lease industrially zoned space, on the fringes of the downtown core, to quasi-commercial operations at rental rates of up to $20/sq.ft., net. However, these uses are subject to interpretation and narrower in scope than commercial zonings. This notwithstanding, high density industrial zoning does not appear to depress land value to the extent that might be expected, given the restricted range of uses.

Even though the City would like to retain a traditional industrial base in the eastern waterfront area, outlying municipalities such as Markham, Vaughan and Mississauga, recipients of the most dramatic industrial growth, often at the expense of the City of Toronto.

The downtown and its periphery has lost its appeal to traditional

industrial users for several reasons, including traffic congestion, a declining labour pool, costly employee parking, relatively high land prices and high property taxes. Traditional industrial companies that would consider locating in the East Bayfront area, would do so only in rare circumstances, such as if the harbour location were absolutely essential for their production, distribution or supply operations.

Suburban industrial areas, by comparison, are able to offer a wider choice of sites, cheaper land, room for expansion, lower taxes, an efficient highway and arterial road network, good labour pools, free parking and supportive municipal governments.

EXHIBIT I - EAST BAYFRONT LAND VALUE

A. LCBO SITE

1. Land Area

11.4 acres (496,584 sq.ft.)

2. Land Uses and Land Value Estimates

		Index	Land Value
Quasi-comm.	469,584 sq.ft. of land	$ 75/sq.ft.	$35,218,800
LCBO offices	66,000 net sq.ft.	$130/sq.ft.	$ 8,580,000
Demolition	419,600 sq.ft.	$ 5/sq.ft.	($ 2,098,000)
Total			**$41,700,800**

B. OPP SITE

1. Land Area

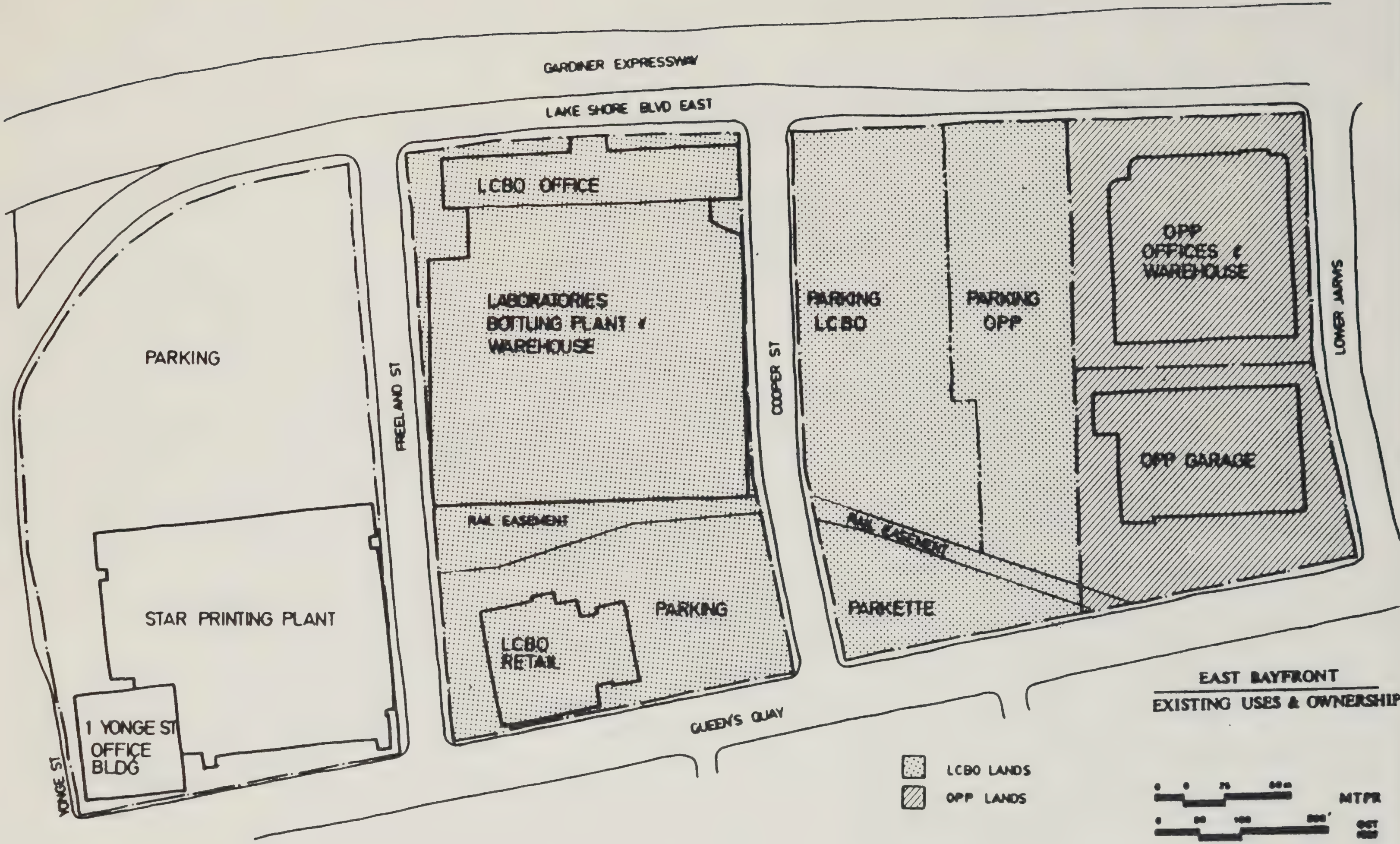
4.1 acres (178,596 sq.ft.)

2. Land Uses and Land Value Estimates

		Index	Land Value
Quasi-comm.	178,596 sq.ft. of land	$75/sq.ft.	$13,394,700
Demolition	88,350 sq.ft.	$ 5/sq.ft.	($ 441,750)
Total			**$12,952,950**

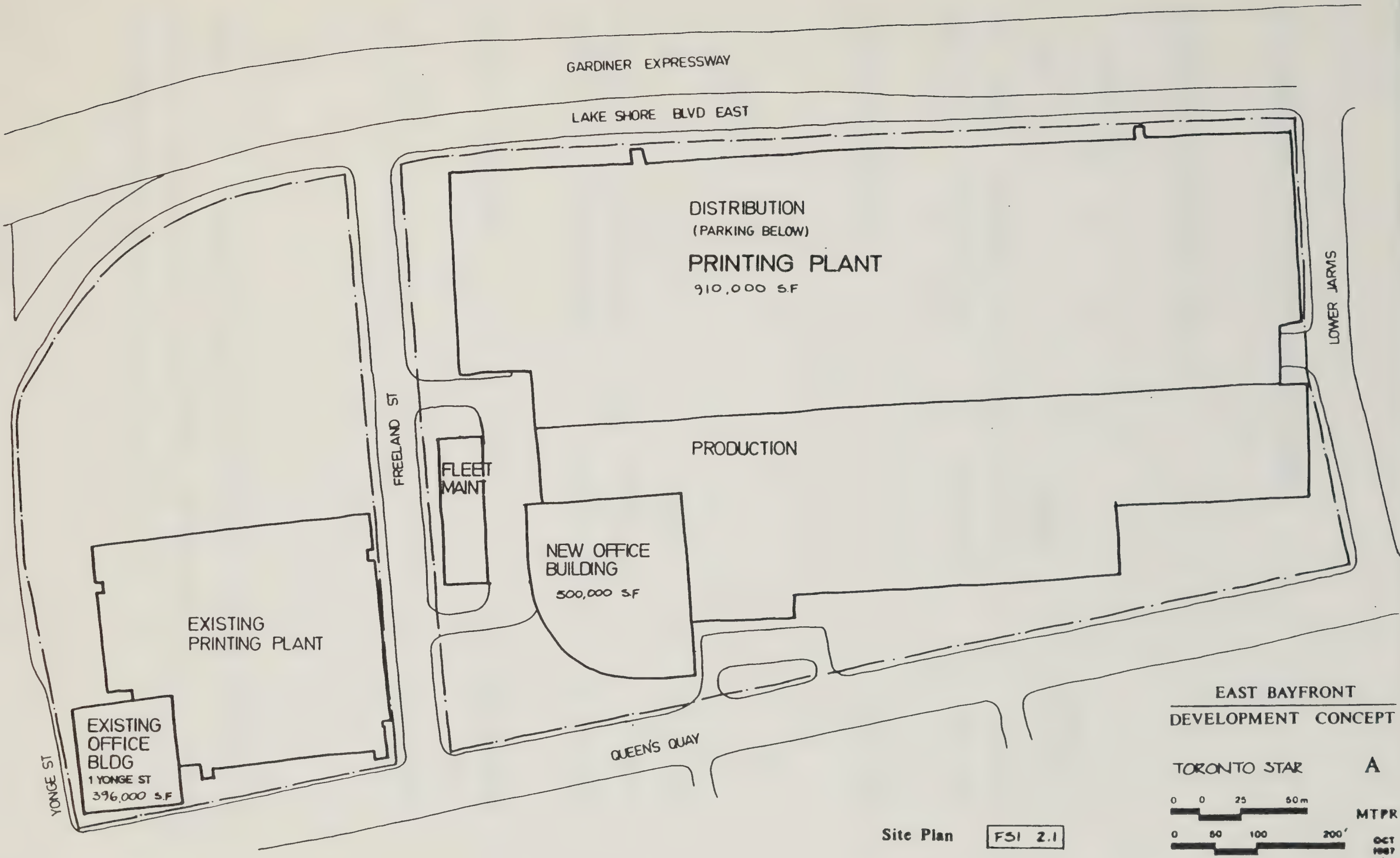
Total Land Value of East Bayfront Sites **$54,653,750**

Note : As the LCBO offices are assumed to have an efficiency of 75%, the 88,000 gross sq.ft. building is assumed to contain 66,000 net leasable sq.ft. It is assumed that the office building uses 27,000 sq.ft. of land.



EAST BAYFRONT

EXISTING USES & OWNERSHIP



Site Plan FSI 2.1

2. FINANCIAL IMPACT OF ALTERNATIVE SCHEMES

SCHEME A - Full Site to Torstar

I. LCBO SITE

Use		Index	Estimated Land Value
Star plant	496,584 sq.ft. of land	@$12/sq.ft.	$ 5,959,000
Demolition	507,600 sq.ft.	@$ 5/sq.ft.	($ 2,538,000)
Estimated Land Value			$ 3,421,000

II. OPP SITE

Use		Index	Estimated Land Value
Star plant	178,596 sq.ft. of land	@$12/sq.ft.	$ 2,143,000
Demolition	88,350 sq.ft.	@$ 5/sq.ft.	($ 442,000)
Estimated Land Value			$ 1,701,000
Total Estimated Land Value			$ 5,122,000

Note: In this scenario, either the Province or Torstar would have to negotiate the purchase of Cooper Street and from the City. This would add 45,000 sq.ft. of usable land to the site.

The Toronto Star proposes an early use of the land, but not one that generates the highest return to the Province. In a previous report by Berridge Lewinberg and Chas. T. Main Inc., for the Toronto Star, it was suggested that industrial uses cannot afford land prices in excess of $8-$10/sq.ft. of land, found in suburban industrial areas. Since the writing of that report, suburban industrial land prices have increased tremendously. Therefore, $12/sq.ft. of land would be a more current equivalent to the Berridge Lewinberg figure.

At the notional value of $12/sq.ft. of land, Torstar would be paying a price considered to be well below the fair market value of the East Bayfront site and more typical of suburban industrial land values.

The actual price that Torstar will offer the Province for the land will become evident once negotiations get under way. However, based on early indications, it is doubtful whether the Company will offer a price that will approximate the fair market value of the land.

The land has much more development potential than as a low-rise plant site. Significantly, the Star is proposing a 500,000 sq.ft. office building as part of its development plan, whereas its actual office space needs are currently less than 150,000 sq.ft. It would appear as though Torstar could be in a position to become a developer/lessor of office space built on land bought at industrial land values. Any negotiations with Torstar should reflect land values for this portion of the site, at least. Valuing the surplus office space (350,000 sq.ft.) at $30/sq.ft., would generate an increase in land value of

$10.5 million. (This argument also applies to Schemes B1 and B2).

An alternative to selling the whole East Bayfront site to Torstar is to negotiate a land lease for the property. This option would provide Torstar with the location it desires, while the Province would not be forced to give up the long term commercial value/redevelopment potential of the land.

Typically, land lease payments would be based on the market value of the land. The rate commonly used is 1 percentage point below the prevailing long term mortgage rate (5 year term). The rational behind using such a rate is that the land lease is, for all intents and purposes, a method of financing. However, it is more secure than a mortgage, since the land title remains with the land owner, therefore the "interest" rate applied is below the mortgage rate.

Assuming an annual land lease rate of 10% of land value, Torstar would be required to make annual land lease payments of approximately $5.5 million. Alternatively, using the notional land value of Scheme A, based on $12/sq.ft. of land, annual land lease payments would be only $512,000.

These land lease payments could be adjusted in the future, reflecting the change in market value of the land over time. In some cases, land lease payments are reduced in the early years, to offset of the heavy capital expenditures during that period. The discount is compensated for by a premium paid in the future which reflects the value of the

earlier concession .

Often, in land lease agreements, a clause is included which requires the landowner to make a lump sum payment, representing the reversionary value of the property built on the land. There is no legal requirement which dictates how this value should be derived. However, it usually reflects the cash flow expectations with respect to the remaining life of the property.

In its negotiations with Torstar, the Province should take into consideration the further development potential of the Torstar lands at One Yonge Street and abutting the Marine Terminal 27 site. The 6.5 acres at One Yonge Street include an office building owned by Bramalea, and Torstar's present plant. The 1.5 acre site next to MT 27 is presently vacant and used only for parking. Both these sites have excellent development and redevelopment potential and are zoned medium to high density commercial and residential.

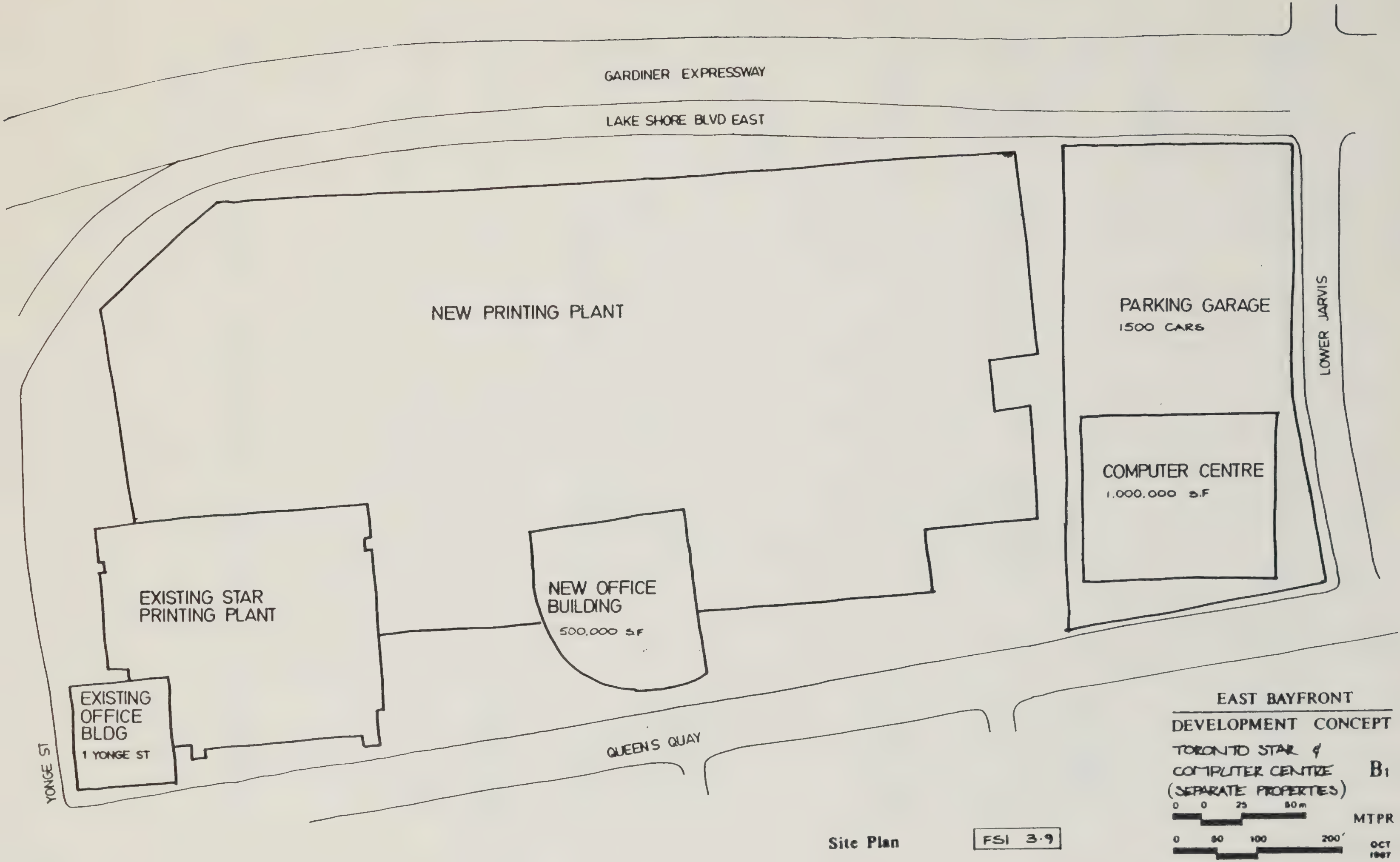
The value of the existing Torstar sites depend on the amount of commercial and industrial development possible on the undeveloped land (ignoring the Bramalea building). If the land was put on the market, it would likely bring up to $40/buildable sq.ft. of commercial space and $30/buildable sq.ft. of industrial space. On this basis, a rough estimate of the value of this land (excluding the Bramalea building) would come to over $55 million.

The possibility of the Province and Torstar exchanging land or jointly

participating in the development of these sites should be considered, if the decision is made to sell the Provincial sites to Torstar at a price below the fair market value of the land.

The key disadvantage of selling the East Bayfront site to Torstar is the low land price Torstar is proposing to pay. Revenue from the sale of this land as a purely industrial site would fall far short of the price achievable if sold to a developer on the open market. Furthermore, if the site was rezoned for unrestricted commercial use at some point in the future, its market value would increase substantially. The Province should not dispose of the site without weighing its value appreciation potential.

Aside from the land value question, an important disadvantage of selling/leasing the land to Torstar is the apparent possibility of bypassing the normal tender call process. The Province could leave itself open to criticism if it decides to deal with a single source purchaser. The potential for close political scrutiny would be magnified if the land was perceived to have been sold well below its fair market value.


GARDINER EXPRESSWAY
LAKE SHORE BLVD EAST
NEW PRINTING PLANT
PARKING GARAGE
1500 CARS
LOWER JARVIS
COMPUTER CENTRE
1,000,000 S.F
EXISTING STAR PRINTING PLANT
NEW OFFICE BUILDING
500,000 SF
EXISTING OFFICE BLDG
1 YONGE ST
YONGE ST
QUEEN'S QUAY
EAST BAYFRONT
DEVELOPMENT CONCEPT
TORONTO STAR &
COMPUTER CENTRE
(SEPARATE PROPERTIES)
B1
MTPR
OCT 1987
FSI 3.9

Site Plan

Scheme B1 - Joint Use, Torstar on LCBO Land & Quasi-Comm. on OPP Land

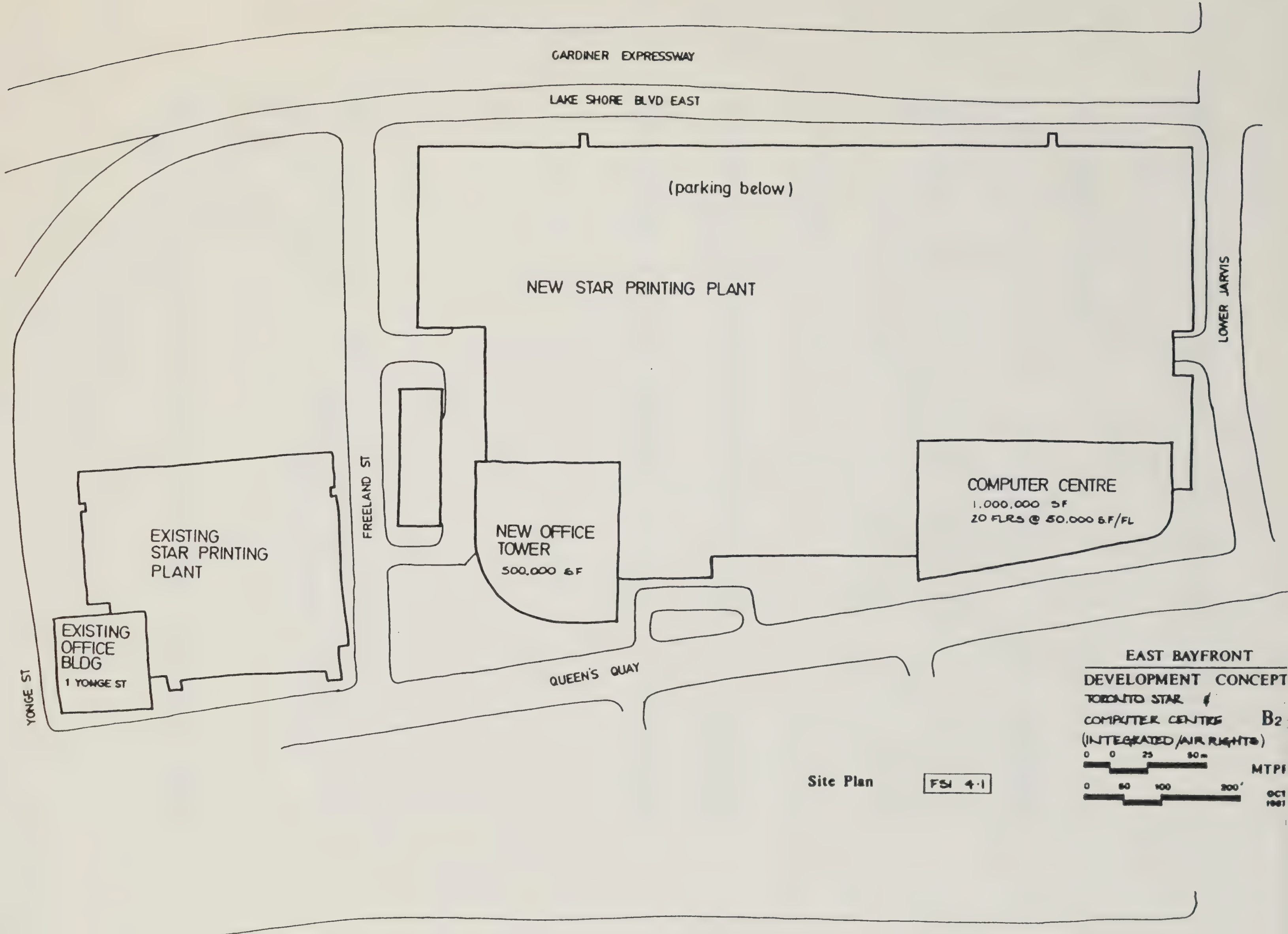
I. LCBO SITE

Use		Index	Estimated Land Value
Star plant	496,584 sq.ft. of land	@$12/sq.ft.	$ 5,959,000
Demolition	507,600 sq.ft.	@$ 5/sq.ft.	($ 2,538,000)
Estimated Land Value			$ 3,421,000

II. OPP SITE

Use		Index	Estimated Land Value
Quasi-comm.	1,000,000 sq.ft. of bldg	@$30/sq.ft.	$30,000,000
Demolition	88,350 sq.ft.	@$ 5/sq.ft.	($ 442,000)
Estimated Land Value			$29,558,000
Total Estimated Land Value			$32,979,000

Note: In this scenario Freeland Street would have to be closed and bought from the City.


GARDINER EXPRESSWAY
LAKE SHORE BLVD EAST
(parking below)
NEW STAR PRINTING PLANT
LOWER JARVIS
FREELAND ST
COMPUTER CENTRE
1,000,000 SF
20 FLRS @ 50,000 S.F/FL
NEW OFFICE TOWER
500,000 SF
EXISTING STAR PRINTING PLANT
EXISTING OFFICE BLDG
1 YONGE ST
YONGE ST
QUEEN'S QUAY
Site Plan
FSI 4:1
EAST BAYFRONT
DEVELOPMENT CONCEPT
TORONTO STAR
COMPUTER CENTRE
B2
(INTEGRATED/AIR RIGHTS)
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0 50 100 200'
MTPF

Scheme B2 - Joint Use, Torstar & Quasi-Commercial Air Rights

I. LCBO AND OPP SITES

Use		Index	Estimated Land Value
Star plant	596,180 sq.ft. of land	@$12/sq.ft.	$ 8,102,000
Quasi-comm.	1,000,000 sq.ft. of bldg	@$20/sq.ft.	$20,000,000
Demolition	595,950 sq.ft.	@$ 5/sq.ft.	($ 2,980,000)
Total Estimated Land Value			$25,122,000
Total estimated land value, allocated to LCBO site*			$18,465,000
Total estimated land value, allocated to OPP site*			$ 6,657,000

* The total estimated land value generated by this scheme is pro-rated to each site based on its relative size, as follows:
LCBO site - 73.5%
OPP site - 26.3%

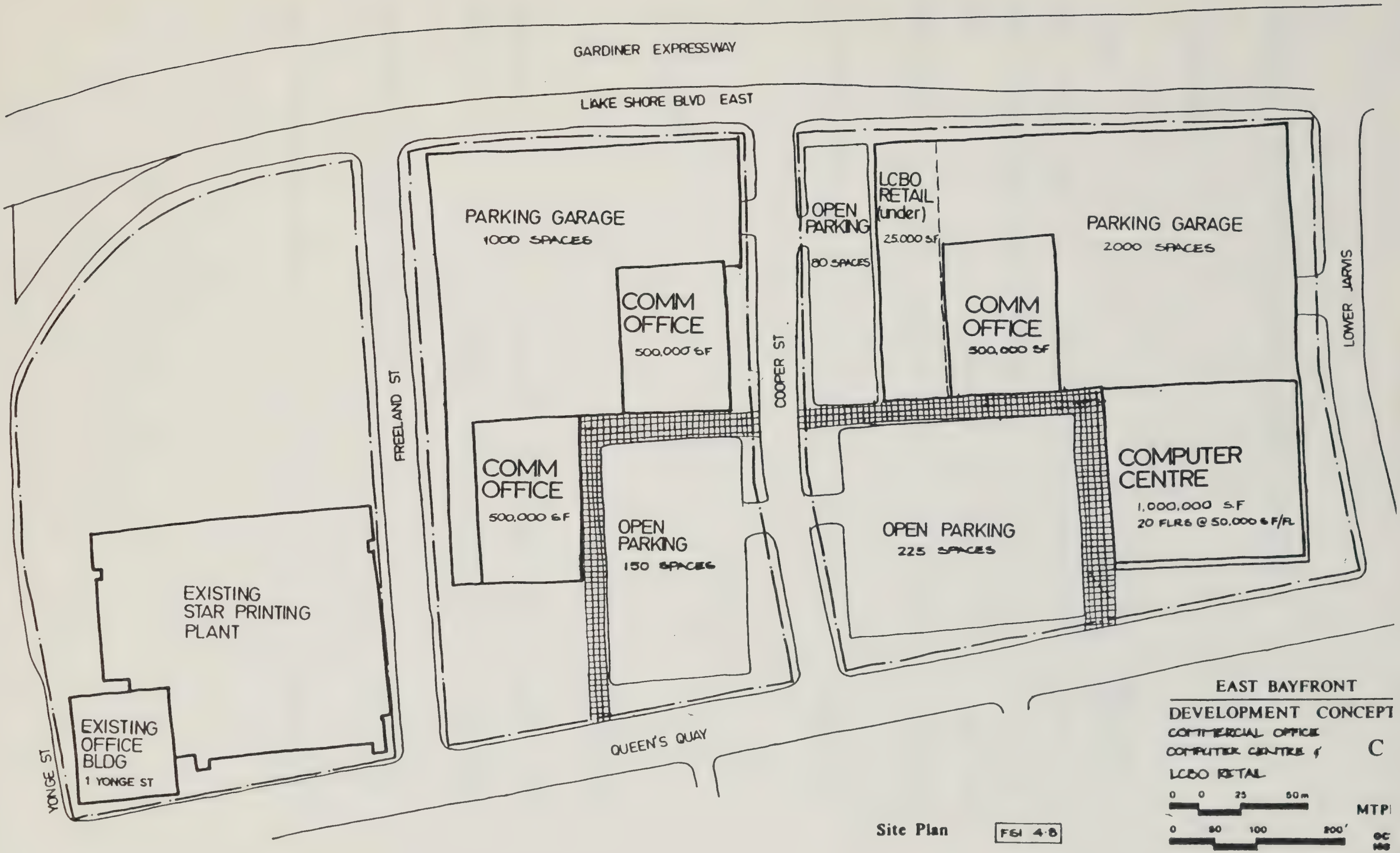
Note: In this scenario Cooper Street would have to be closed and bought from the City.

Both these schemes are a compromise between full commercial development and completely industrial use. However, they still generate values well below the estimated market value of the land.

It is not known whether Torstar would be satisfied with the new site configuration that is proposed in each scheme. Scheme B1 would force Torstar be build its plant partly on the land it intends to develop, once it has moved off its current site. Therefore, it would be giving up the commercial potential of its current land holdings.

Scheme B2 involves the Province selling air-rights over the south-east corner of the proposed plant, allowing up to 1 million sq.ft. of quasi-commercial office space. Even though this approach would be attractive to developers and would conform with the current zoning (as well as the interim control by-law), it might not find favour with Torstar. Torstar may be reluctant to support such development, due to perceived security risks, plant layout concerns, image considerations and to avoid encumbering the site.

Although Schemes B1 and B2 may not be acceptable to Torstar, they might serve as negotiating tools. Even if the proposed computer centre proposal does not come to fruition, it does highlight the potential for higher and better uses on the site than Torstar is suggesting.



Site Plan

FIG 4·8

Scheme C - Commercial Development, Without Torstar

I. LCBO SITE

Use		Index	Estimated Land Value
Comm. offices (West bl.)	1,000,000 sq.ft.	@$40/sq.ft.	$40,000,000
Comm. offices (East bl.)	500,000 sq.ft.	@$40/sq.ft.	$20,000,000
LCBO	25,000 sq.ft.	@$40/sq.ft.	$ 1,000,000
Demolition	507,600 sq.ft.	@$ 5/sq.ft.	($ 2,538,000)
Estimated Land Value			$58,462,000

II. OPP SITE

Use		Index	Estimated Land Value
Quasi-comm.	1,000,000 sq.ft.	@$30/sq.ft.	$30,000,000
Demolition	88,350 sq.ft.	@$ 5/sq.ft.	($ 442,000)
Estimated Land Value			$29,558,000
Total Estimated Land Value			$88,020,000

It should be noted that this scheme incorporates over 3000 parking spaces. Due to the lack of quick and convenient access to the subway, an allowance must be made for providing a substantial amount of parking, as an incentive to office users. The cost to the developer is justified by the increased marketability of the development.

This scheme generates the highest revenue to the Province. However, this value is only possible with commercial uses, for which the land is clearly not zoned, and some quasi-commercial uses which are presently allowable. Even though it is probable that office development would not start immediately on the site, since East Bayfront is still beyond the fringe of downtown commercial development, developers may be willing to hold the land, or a portion of it, until the development timing is right.

The Province, should consider holding the East Bayfront land until downtown waterfront commercial development expands east of Yonge Street. Although it is quite possible that, within the next 10 years, the Province's land will be marketable as a commercial site, developers will still discount the land's development value for the uncertainty involved in purchasing the land in the near future. If the Province is willing to hold the property, its value in the future could conceivably be significantly higher than the $54.7 million the land could possibly bring if sold at present.

Should the Province decide to hold the East Bayfront land, it could also pursue a rezoning from industrial to commercial. If the site was

sold prior to rezoning, a developer would discount the purchase price for risk and time involved in the rezoning process.

The Province is more likely to achieve a selling price of $88.0 million, generated by Scheme C, with the desired zoning already in place.

Whether the land is sold to a developer or held by the Province, it would relieve the pressure to move the L.C.B.O. from its present site. This "tenant" represents an acceptable, though perhaps not optimal interim use of the land.

Scheme D - Longer Term Hold, With Interim Uses

I. LCBO Stays on Site (Schemes D1 and D2)

Use	Net Leasable Area	Net Rental Rate	Est. Present Value of Cash Flow
LCBO outlet	18,750 sq.ft.	@$ 9/sq.ft.	$ 953,000
LCBO offices	66,000 sq.ft.	@$ 9/sq.ft.	$ 3,356,000
LCBO plant/warehse	302,250 sq.ft.	@$ 4.5/sq.ft.	$ 7,685,000
Total LCBO Properties			$11,994,000

II. Quasi-Commercial Development on OPP Site (Scheme D1)

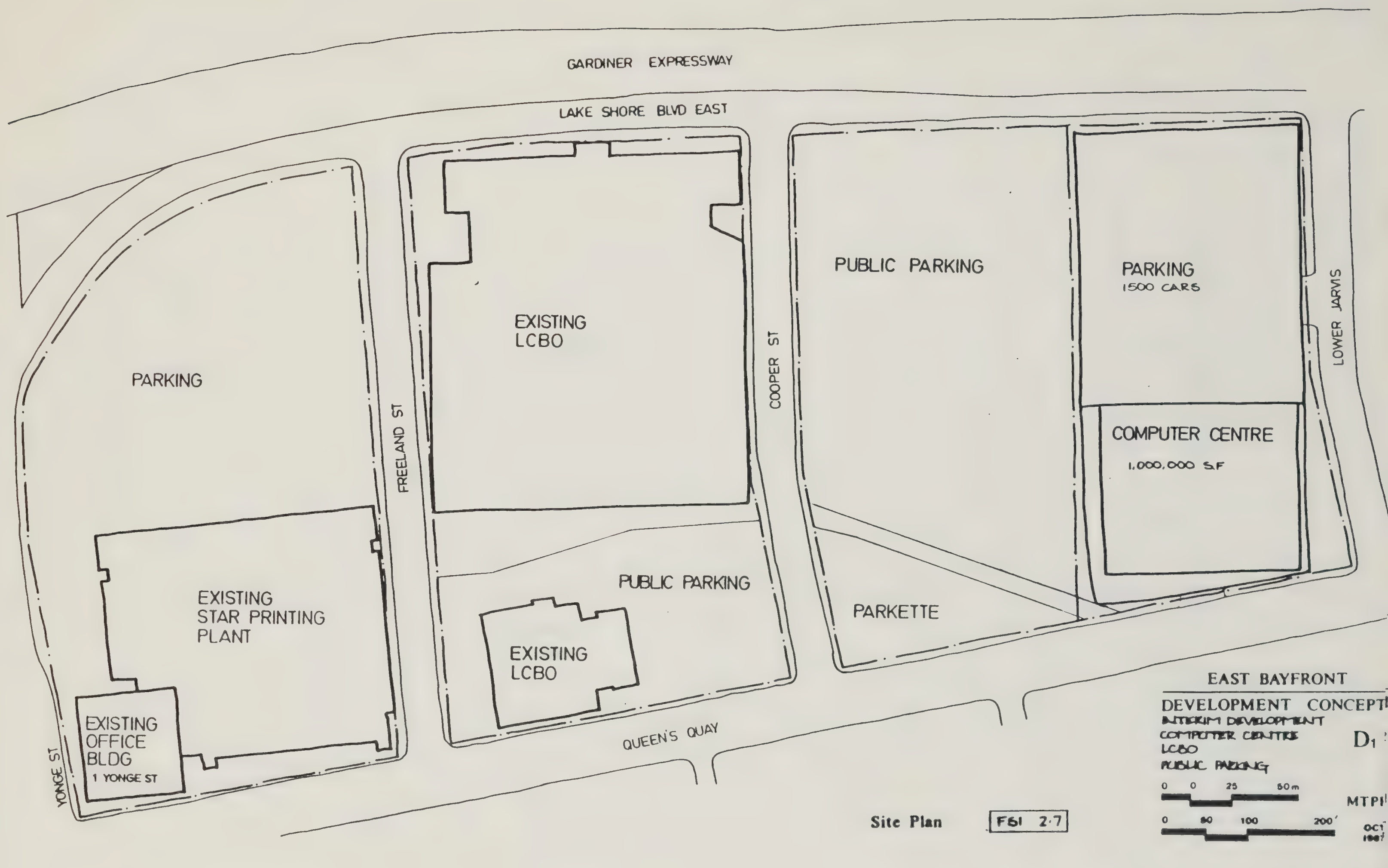
	Land Area	Index	Est Land Value
Quasi-Commercial	1,000,000 sq.ft.bldg	@$30/sq.ft.	$30,000,000
Demolition	88,350 sq.ft.	@$ 5/sq.ft.	($ 442,000)
Estimated Land Value			$29,558,000

Total Estimated Value, All Properties (Scheme D1) $41,552,000

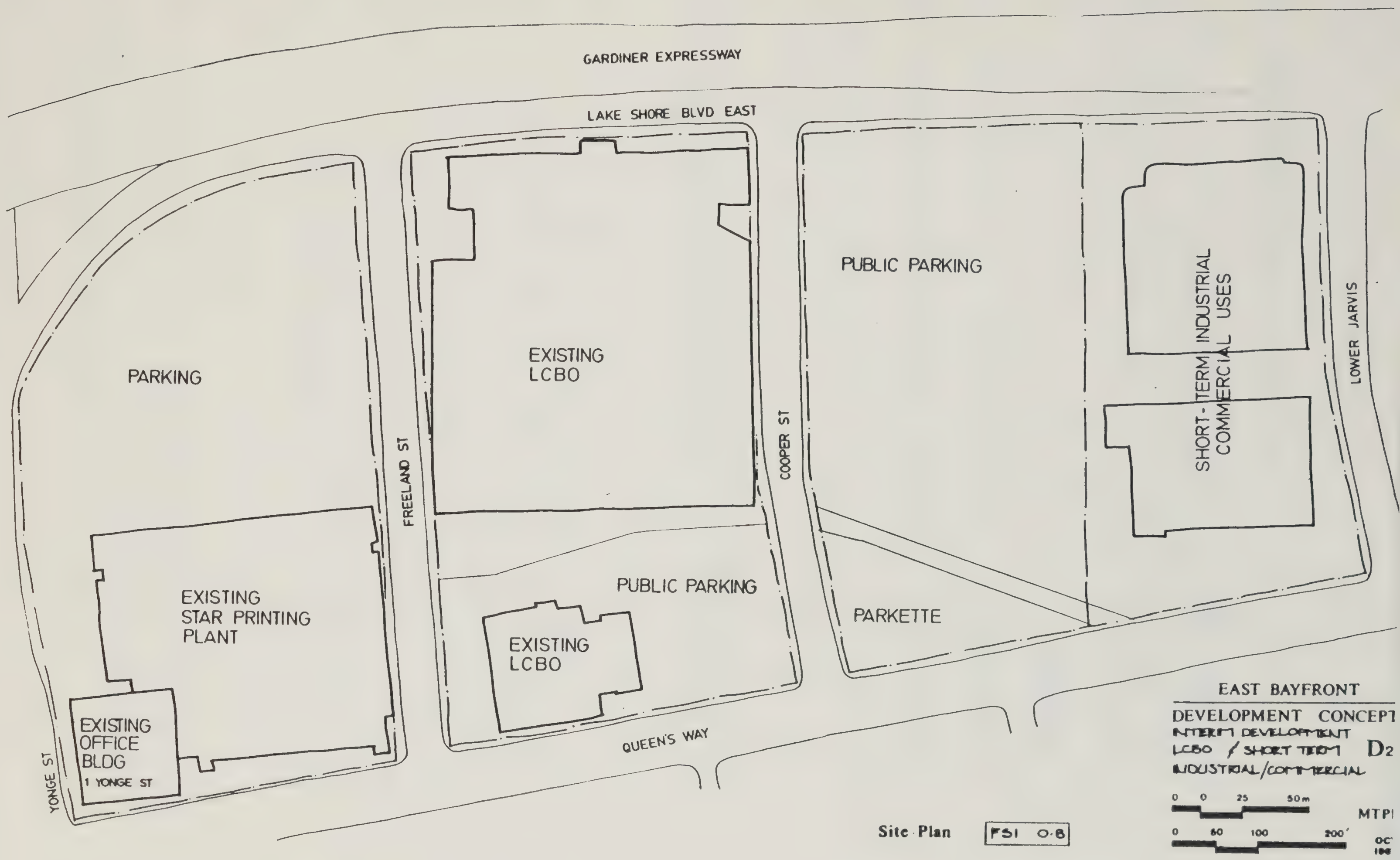
Present Value Calculation Assumes:

Net Leasable Area = 75% of GFA
Discount Rate = 12%
Interim period = 10 years

Note: The value of the LCBO property over the interim period is purely notional and academic, since the LCBO owns its land and properties and does not make lease payments to the Province.



Site Plan FSI 2·7


GARDINER EXPRESSWAY
LAKE SHORE BLVD EAST
PARKING
EXISTING STAR PRINTING PLANT
EXISTING OFFICE BLDG
1 YONGE ST
YONGE ST
FREELAND ST
EXISTING LCBO
PUBLIC PARKING
EXISTING LCBO
QUEEN'S WAY
COOPER ST
PUBLIC PARKING
PARKETTE
SHORT-TERM INDUSTRIAL COMMERCIAL USES
LOWER JARVIS
Site Plan
FSI 0.8
EAST BAYFRONT
DEVELOPMENT CONCEPT
INTERIM DEVELOPMENT
LCBO / SHORT TERM
INDUSTRIAL/COMMERCIAL
D2
0 0 25 50m
0 50 100 200'

III. <u>Interim Uses on OPP Site</u> (Scheme D2)

Use	Net Leasable Area	Net Rental Rate	Est. Present Value of Cash Flow
OPP offices	23,175 sq.ft.	@$ 7.5/sq.ft.	$ 982,000
OPP warehouse/garage	43,090 sq.ft.	@$ 4.5/sq.ft.	$ 1,096,000

Total OPP Properties		$ 2,078,000
Total LCBO Properties	(as (I) above)	$11,994,000
Total Estimated Value, All Properties (Scheme D2)		$14,072,000

Present Value Calculation Assumes:

Net Leasable Area = 75% of GFA

Discount Rate = 12%

Interim period = 10 years

Note: The value of the LCBO property over the interim period is purely notional and academic, since the LCBO owns its land and properties and does not make lease payments to the Province.

These two schemes should be seen as complements to Scheme C. The values generated by the LCBO and other interim uses (excluding the computer centre), are based on cash flow from the properties during the interim period (assumed to be 10 years). In the case of the LCBO properties, the generated value is purely notional, since it is based on the market rental rate for the various components, ignoring the fact that the LCBO owns the land and buildings and makes no lease payments to the Province

These values would not provide an adequate return on a developer's investment in the land and property. The long term potential of the site is not recognized in the valuation of interim uses.

3. OPTIMAL SCHEME

The highest land value is generated by **Scheme C**. This could be expected, since it has the largest commercial use, compared to the other three alternatives.

Even though Scheme C is the most profitable to the Province, it would not be the most marketable scenario, at present. Developers who would consider purchasing the site at $88.0 million, would be speculating that zoning can be relatively easily changed and that the land is ready for commercial development.

Rather than selling the land at a price discounted for its speculative nature, it could be advantageous for the Province to hold the land off the market until the commercial potential of the area matures. This would suggest the adoption of **Scheme D**.

Given the probability that commercial development will gradually reach East Bayfront, the Province would be sacrificing revenue if it sold the land to Torstar, at an almost suburban industrial land value. The opportunity cost of such a decision could be around **$29.6 million**, based on the current market value of the land (assuming Scheme B2).

Should the Province decide that, for political reasons, it is best to sell to Torstar, a reasonable compromise would be to lease the land rather than sell it. By establishing a 30 year land lease, Torstar would have full use of the site during the economic life of its new

plant. At the termination of the lease, the Province would have a valuable site that would be ready for commercial development.

4. L.C.B.O. RELOCATION CRITERIA

The timing of the L.C.B.O. move from the East Bayfront site is a crucial factor for the proposed Torstar relocation and must also be considered for the other scenarios. Obviously, Torstar cannot be accommodated on East Bayfront until a replacement site is found for the plant and offices of the L.C.B.O. (a new site for the specialty liquor/wine store is also a question that must be dealt with).

It must be recognized that as time goes by, the opportunity cost of keeping the L.C.B.O. at its present location increases. As the area matures in terms of commercial marketability, the L.C.B.O. plant will increasingly represent an uneconomic land use. This suggests that even if the Torstar and Computer Centre proposals fall through, market pressure for the L.C.B.O. to relocate will increase with time.

In terms of the basic economics of a potential relocation of the L.C.B.O., as long as potential revenue from the sale of the L.C.B.O. site is greater than the cost of buying an alternative site, plus the cost of building a new plant and offices, the L.C.B.O. should be relocated. This ignores political and employee relation issues which may suggest a different solution.

Even though the economics of a land sale may dictate the relocation of the L.C.B.O. in the near future, it quite possible that the potential revenue from the sale of the site is increasing at a greater rate than the increase in cost of an alternative site and of building new

facilities.

In a perfect world, this would suggest delaying the move until the expected difference in revenues and costs is in equilibrium. In practical terms, relocation should occur when it is felt that revenue is being maximized and costs are being minimized.

In terms of the L.C.B.O.'s internal management criteria, relocation would be warranted if the Board outgrew its office and/or plant capacity, assuming it could not be economically expanded. Similarly, technological advances in production or the deterioration of present facilities could also initiate a need for new facilities at a new site. In these cases, the opportunity cost of the land does not come into play.

5. MARKET CONTEXT

A. Harbourfront

Even though East Bayfront is not part of the Harbourfront land, it is affected by the current controversy with respect to development along Toronto's waterfront. The amount of development along Harbourfront's 90 acres of land has raised concerns that the City will be cut off from the Lake and that the area will not have sufficient park land. Furthermore, concern over how decisions are made at Harbourfront and who the Crown Corporation answers to, has forced the Federal and City governments to review Harbourfront's activities and freeze some of the planned Harbourfront apartment developments.

Some politicians would like to see all waterfront development, from Bathurst St. to Leslie St., frozen for as long as two years. Even though this proposal was recently rejected by City council, and the freeze was partially lifted, it does highlight the kind of political concern that even the Provincial site has to reflect.

As mentioned previously, the City intends to reinforce industrial development east of Yonge Street (excluding MT 27). An interim control by-law, separate from the overall Harbourfront situation, is being debated by Council, with the intention of freezing all non-industrial developments.

High density developments could still result at East Bayfront, since the 12 X FSI has not been reduced. More importantly, developers have recently been able to market quasi-commercial office space to "industrial" users, such as engineers, advertising agencies, cinematographers, etc., at rental rates usually associated with commercial zoning, rather than with industrial zoning.

B. <u>World Trade Centre</u>

York Hannover Developments Ltd. and the Camrost Group are planning a large mixed-use development at Harbour and Yonge Streets. The World Trade Centre will include three 30-storey office towers totalling 1.65 million sq.ft. and two condominium towers totalling 700 units.

There are some financial and legal considerations which are presently slowing the planning process for the development. Furthermore, York Hannover is reportedly attempting to sell off its share of the project. These factors, combined with concerns over the size and character of waterfront developments have created some uncertainty with respect to the timing of the project. However, completion of The World Trade Centre is expected by 1992-93.

The World Trade Centre will move the focus of waterfront development eastward, although still west of Yonge Street. Once this project is completed and if it proves successful, the Province's site will be that much more appealing to the developer. The World Trade Centre continues

the trend, set by Campeau with Waterpark Place, of locating Class A offices south of the Gardiner Expressway.

C. Marine Terminal 27

In early 1987, The Avro Group bought 9 acres of Harbour Commissioner's land on Marine Terminal 27 for $24.6 million ($62.75/sq.ft.). At that time, there was a feeling among some City councilors that the land was sold at a price that was well below market value. Since then, the booming real estate market has sent land prices soaring. As a result, it has become meaningless to compare today's land prices with those that were achievable yesterday.

Originally, a high density commercial and residential development was planned. However, the City has been attempting to renegotiate its agreement with Avro. So far, the developer has not made public its plans for developing the site.

Once a final agreement is reached with the City and the development gets under way, it will stimulate the development potential of the Provincial sites. In all probability, the development will involve high quality offices and condominiums. This would be the first commercial/residential development east of Yonge Street, below the Gardiner Expressway. If successful, such a precedent would establish East Bayfront as a viable commercial development area.

D. Torstar Site

The present location of the Torstar plant and offices is directly across Yonge Street from the planned World Trade Centre. Torstar owns the land and has leased it to Bramalea until 2020, at which point it will own the building Bramalea has built on it. Torstar also owns 1.5 acres adjacent to Marine Terminal 27, which it currently uses for parking.

After the proposed World Trade Centre and the eventual development of Marine Terminal 27, the Torstar site will provide the next step eastward for development. Torstar intends to develop the site to maximize its commercial and residential potential, once it has moved out of its current plant.

This planned development reaffirms the commercial potential of the Province's site, in the long term. However, the Torstar site might also be used to negotiate a better deal for the Province, if circumstances require it to sell its land to Torstar at an "industrial" price. The Province could trade the development potential it would lose on its land, for the development potential of the Torstar site (or some share thereof).

E. Redpath Sugars

The Redpath Sugars Refinery on the south side of Queen's Quay, facing the eastern portion of the Province's site, hampers the site's

marketability for office space and all but eliminates the possibility of residential development on the site.

According to a recent study by Berridge Lewinberg, the refinery is one of the most modern in the world and would cost $100 million to replace. The lakefront location is crucial to Redpath Sugars, due to its shipping requirements and since it uses the lake water in its production process. It is clear, based on the Berridge Lewinberg report, that at least in the immediate future, Redpath Sugars has absolutely no intention of moving its refinery to make way for eastward development of the waterfront.

F. Harbourfront Transit

Construction of a long awaited transit system connecting the Harbourfront with Union Station, will start in November 1987. Plans call for streetcars to run underground from Union Station along Bay St. to Queens Quay. It will then run at grade, in a priority lane, heading west until it loops at Spadina. The estimated cost of the project is $51 million. The transit line is supposed to be operational by early 1990.

The Provincial site will benefit directly from the Harbourfront transit line, since it is only two blocks away from the nearest stop. The new line will make the entire Harbour area more accessible, which can only enhance the marketability of development land in the East Bayfront area.